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MAY 1961

The Mortgage Banker

A united nation begins a four-year observance of its hour of greatest agony (see page 5)

MORTGAGE BANKERS ASSOCIATION OF AMERICA

in this issue ---------

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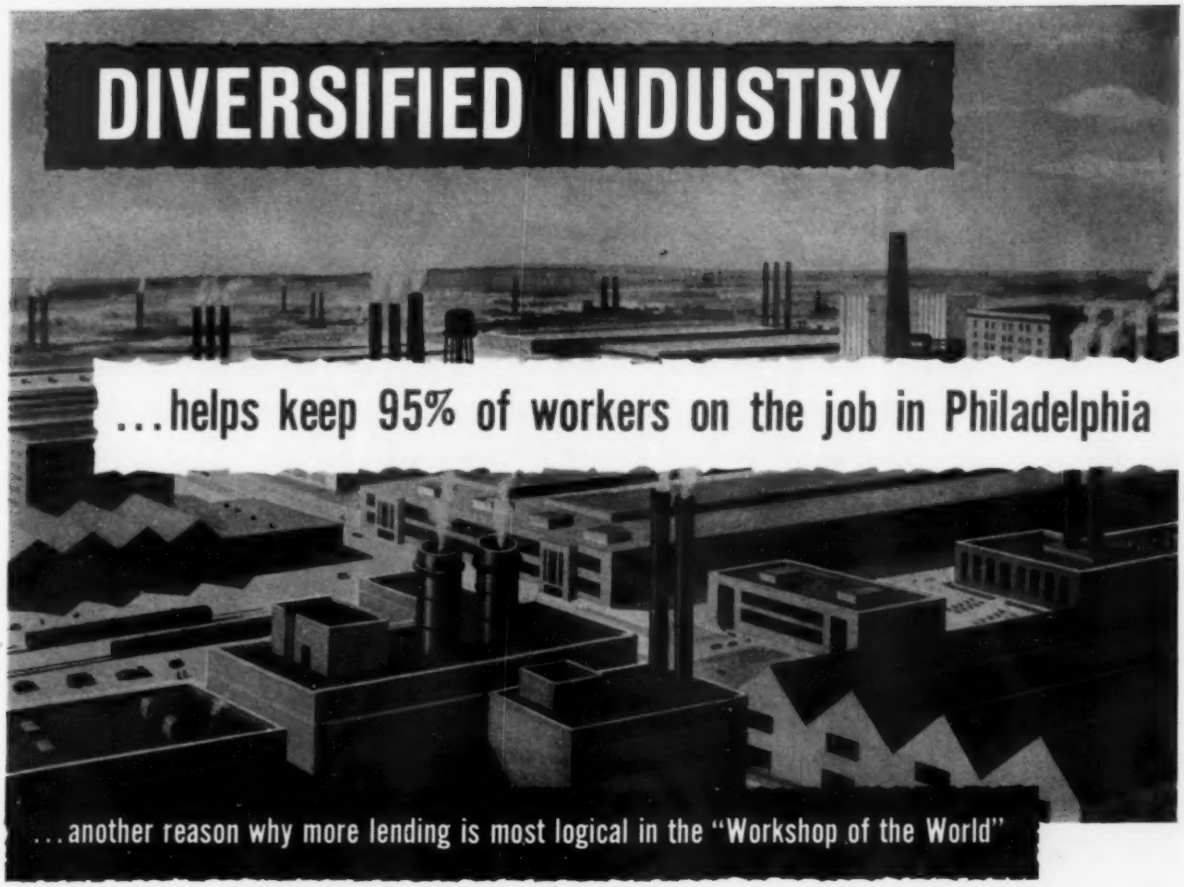

Good times or bad, industrial diversification in the greater Philadelphia area really pays off! Even during the recent slump, 95% of the 1,800,000 man labor force were gainfully employed—with new workers being added at the rate of 20,000 per year.

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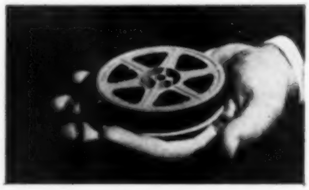

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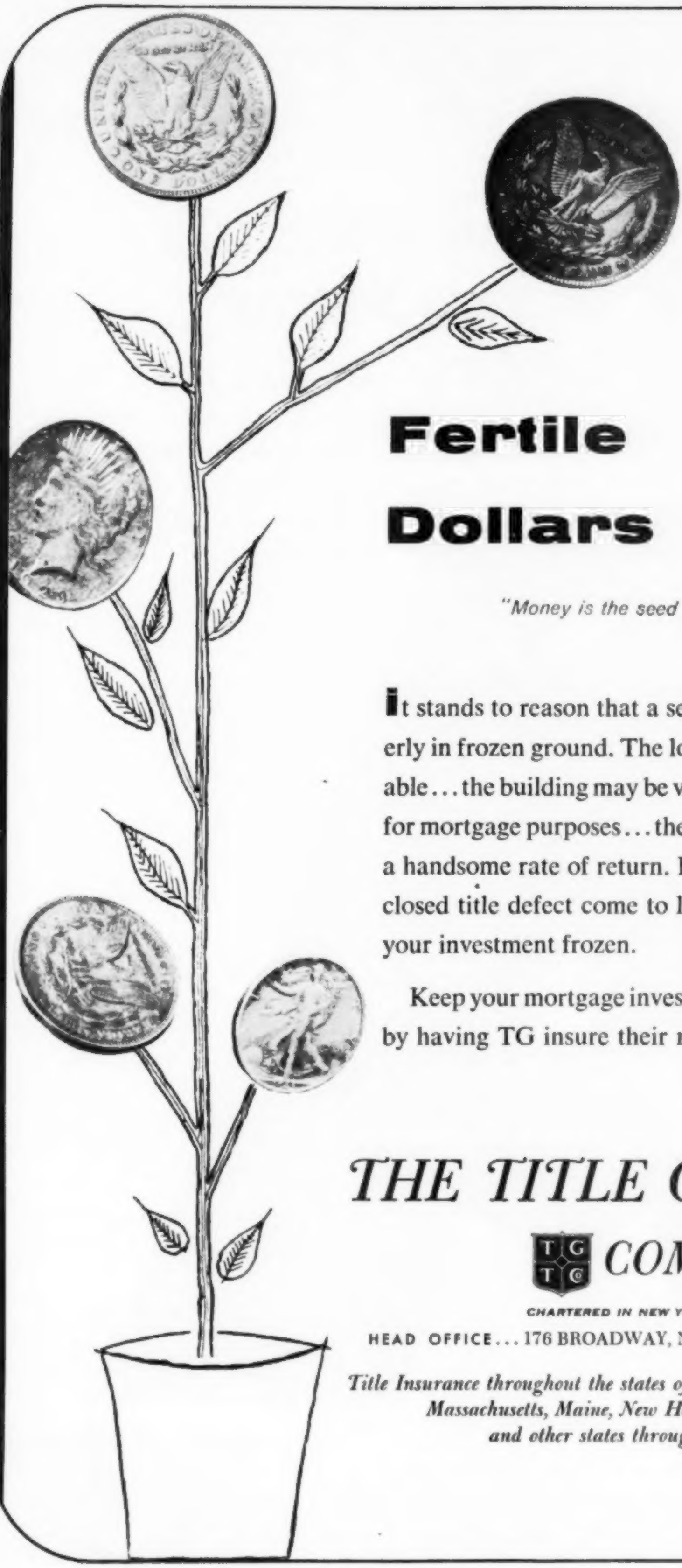

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MBA CALENDAR

May 18-19, Eastern Mortgage Conference, Queen Elizabeth Hotel, Montreal, Canada

School of Mortgage Banking, Northwestern University, Chicago:

June 18-24, Course I

June 25-July 1, Course II

July 2-7, Course III

School of Mortgage Banking, Stanford University, Stanford, California:

July 23-29, Course I

July 30-August 5, Course II

September 11-14, Electronic Convention, Statler Hilton Hotel, Detroit

October 30-November 2, 48th Annual Convention, Americana Hotel, Miami Beach, Florida

December 10-16, Second Annual Case-Study Seminar on Income Property Financing, Michigan State University, East Lansing, Mich.

President Tharpe's Calendar

May 11, Texas MBA, Fort Worth

May 21, National Association of Home Builders, Washington, D. C.

May 25-26, Conference of Business Economists, Washington, D. C.

May 29, Metropolitan Washington, D. C. MBA—Washington, D. C. Real Estate Board Joint Meeting, New Bedford Springs, Pa.

The Mortgage Banker

PUBLISHED MONTHLY BY THE

MORTGAGE BANKERS ASSOCIATION OF AMERICA

ROBERT THARPE, *President* — CARTON S. STALLARD, *Vice President*

DALE M. THOMPSON, *Second Vice President* — GEORGE H. DOVENMUEHLE, *Treasurer* — FRANK J. McCABE, JR., *Executive Vice President*

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GEORGE H. KNOTT, *Editor* — ROBERT J. BERAN, *Associate Editor*

Volume 21 — **May, 1961** — **Number 8**

Contents

THE COVER: This year, and for the next three, the nation will look back on that most profound and significant event of its past, the War Between the States—the event which, probably more than any other, created the nation of today. It caused more casualties than all our other wars, created untold devastation, but in the end the nation stood. Almost no publication today will fail to note this Centennial Year and THE MORTGAGE BANKER does so in a modest way. The cover pictures show, top left to right, the famed Monitor and Merrimac battle in 1862 and the first Battle of Bull Run. Below, the engagement at Gettysburg in 1863 and, right, the Union troops march down Pennsylvania Avenue after hostilities have ceased.

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When East Met West

AT PROMONTORY POINT

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Here's what's behind our title insurance, reinsurance, trust and escrow services

Chicago Title and Trust Company and Subsidiary Title Companies

CONSOLIDATED BALANCE SHEET—DEC. 31, 1960

ASSETS

CASH ON HAND AND IN BANKS		$ 8,121,929
MARKETABLE SECURITIES		
Bonds, at amortized cost—		
U. S. Government obligations	8,610,119	
State and municipal bonds	16,907,356	
Other bonds	1,545,107	
	27,062,582	
Stocks, at market value—		
Preferred	1,997,780	
Common	7,645,794	
	9,643,574	
Bonds, at amortized cost, pledged to secure trust and escrow cash balances—		
U. S. Government obligations	16,756,865	
State and municipal bonds	6,842,012	
	23,598,877	
Total marketable securities		60,305,033
RECEIVABLES, less reserves for doubtful accounts		2,603,216
OTHER INVESTMENTS:		
Chicago Title and Trust Building Corporation, common stock ($4,250,000) and note receivable ($1,250,000)	5,500,000	
Mortgage loans on real estate	1,416,853	
Sundry loans and investments, less reserve for losses	1,165,560	
		8,082,413
FIXED ASSETS, at cost:		
Land	719,513	
Buildings and building improvements	2,431,661	
Furniture, fixtures and equipment	2,222,698	
Less—Reserves for depreciation and amortization	(1,518,600)	
		3,855,272
PREPAID EXPENSES		182,187
TITLE RECORDS AND INDEXES		6,552,972
Total Assets		$89,703,022

LIABILITIES, RESERVES AND CAPITAL

LIABILITIES:		
Cash deposits as indemnity against specific title insurance risks		$ 5,223,330
Accounts payable and accrued taxes—		
Federal income tax	2,250,662	
Other taxes	260,409	
Accounts payable	536,376	
		3,047,447
Trust and escrow cash balances secured by pledged securities		23,430,035
RESERVES:		
For possible losses and related expenses for title, escrow and trust services	7,022,082	
For contingent deferred compensation	451,611	
For market fluctuation of securities	8,193,137	
Unrealized appreciation on stocks	4,148,881	
		19,815,711
MINORITY STOCKHOLDERS' INTEREST IN SUBSIDIARY COMPANIES		707,793
CAPITAL:		
Capital stock, par value $20 per share, authorized 750,000 shares, issued 634,709 shares	12,694,180	
Surplus	14,153,745	
Undivided profits	10,630,781	
		37,478,706
Total Liabilities, Reserves and Capital		$89,703,022

FINANCIAL STRENGTH

The Consolidated Balance Sheet at left is published to show you the financial resources that back the title insurance and reinsurance policies of Chicago Title and Trust Company. Below are listed some of the additional factors which make it possible for us to serve you quickly and reliably. . . . as this company and its predecessors have been doing for 114 years.

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EXPERIENCED MANAGEMENT

The safe, skillful performance of the many services offered by Chicago Title and Trust Company is a product of the combined knowledge and experience of this company's officers and staff working under the directon of a distinguished Board of Directors. Members of this Board are men of broad and varied backgrounds in law, real estate, investments and business management. Their judgment provides the continuity of sound direction which is so important to the long-range protection of investments in real estate.

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Annie Russell Theatre and Knowles Memorial Chapel of Rollins College, Winter Park.

Photo courtesy of Winter Park Board of Realtors and Rollins College

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Two Faces of Stability

in residential construction

To stimulate the economy when a stimulus seems necessary, housing like roads is easy to get at, easy to manipulate — or so it has appeared. But we may have reached the end of that road

By C. CANBY BALDERSTON
Vice Chairman, Board of Governors, Federal Reserve System

THE conflict between instability of particular parts of the economy and of the whole is especially significant to residential construction. Its pace historically has been more uneven than is desirable. Here is an industry that has been stimulated by government when general recession threatens even though such stimulus may increase the building industry's own instability. Residential construction, as well as highway construction, have been used as counterweights.

The hope is that houses and roads, being needed anyhow, can be built at accelerated rates when the rest of the economy is in the doldrums and thus supply jobs for the cyclically unemployed. This hope assumes that unsatisfied demand for housing exists —which of course may not be the case in all recessions. Unfortunately, time lags have often resulted in the additional housing being built after the rest of the economy has recovered —thus accentuating the strain on resources and the raising of costs. In fact, if house buying had not fallen off in 1949, 1953, and 1957, even higher construction costs might have pushed housing prices still higher than they are.

Any policy for stabilization of residential construction activity must consider what it is that needs to be stabilized: current additions to supply, or the capacity of the existing stock to satisfy consumer wants. During most of the postwar period these two considerations have not been in serious conflict.

Changes during recent years in the amount and kind of household formation, the steady rise in vacancies, and the absence of pronounced urgency in market demand for housing suggest that we may have entered a period when the total stock of housing and its capacity to satisfy consumer wants is numerically more nearly satisfactory than before. If this is the case, attempts to maintain additions to the supply at recent levels may have serious effects on the market value of existing houses.

Undoubtedly, a substantial number of Americans are living in housing that should not be in use. Elimination of substandard housing, however, is not necessarily a direct consequence of building more houses than the market will absorb. In the auto industry, the building of more new cars than the market will absorb does not eliminate substandard vehicles from

the road. Immediately after the war, an increase in supply — by repair, modernization and conversion, as well as by new construction — did result in many families moving from makeshift to acceptable housing.

But through the postwar period, boom activity in housing construction has not coincided with the general economic cycle. In a measure it was countercyclical in its fluctuations, but at times its effectiveness as a counterweight has been hampered by the inflexibility of mortgage interest rates. In part, such inflexibility is inherent in our mortgage markets, but in part it results from the inflexible ceilings of the FHA-insured and the VA-guaranteed mortgage programs.

There ought to be a completely free market in mortgage loans

Development of a freely functioning secondary mortgage market for conventional, as well as Federally underwritten mortgages, might help to remove some of the inherent inflexibility of rates by permitting general capital market developments to influence the conventional mortgage market promptly. Inflexibility in conventional mortgage rates may be attributable in part to the fact that competition from FHA and VA financing tends to decline as discounts rise. A more sensitive administrative flexibility of interest rates under these programs would thus help make all mortgage rates more flexible. This, in turn, should help to moderate the wide swings that have characterized activity in residential construction. It should be recognized, however, that this greater flexibility would mean the payment of higher interest rates at times and also would involve drawing funds from other capital markets, except to the extent that the higher interest rates stimulate increased savings.

Finance undoubtedly has had a great bearing on the demand for housing in the postwar period. Currently, however, other factors may be growing in importance. As the automotive industry has found, public taste does not stand still. In general, the public is demanding more basic value for the money it spends now that the more urgent shortages created by war have been satisfied.

Public taste in housing is difficult to fathom. Change, however, may be in the wind; witness how many mobile units are being used as homes and the increased interest in housing for special purposes, such as retirement. Though the magnitudes are still relatively small (as were foreign car imports a number of years ago), changes may be under way whose significance is still to be determined.

In summary then, the demand for residential construction, still under the influence of financial stimulation, seems to be reflecting new consumer desires as well. The extra stimulation may have had the good result of increasing the supply of housing, and of enabling more families to hold title to their homes, even if many times the equity be thin.

However, every sweet hath its sour, and every benefit its tax, as Emerson observed. In this case the past use of this industry as a stabilizing factor for the economy as a whole may have heightened potential instability of the housing industry itself. The penalty is perhaps already appearing in the rise of unemployment among construction workers. In 1955 to 1957, 8 to 9 per cent of all construction workers were unemployed, whereas the 1960 figure was over 12 per cent despite the fact that non-residential construction was at record levels. Were Emerson still alive, he might glean from the experience of the housing industry still another example for his essay on Compensation.

As before the Des Moines Real Estate Board

$70 BILLION MORTGAGE DEBT PAID IN DECADE

American homeowners have paid off a total of close to *$70 billion* on the principal of their home mortgage debt, exclusive of interest, in the period from the beginning of the Fifties to date.

This reduction consisted of regular amortization payments swelled by sizeable amounts of voluntary repayment. The two together added up to just under $3½ billion in 1950 on one-to-four family nonfarm homes. For 1960 the total came to more than $9 billion, or well over two and one-half times as great, reflecting the big rise in home mortgage debt in the residential building boom of the last decade. Amortization payments alone represent almost $6 out of every $7 of the debt repaid in the 1950-60 period. The figures exclude refinancing.

Total home mortgage debt outstanding has shown an even greater rate of growth than repayments, and for 1960 was estimated at approximately $142 billion, over three times the $45 billion outstanding in 1950. This largely reflects the level attained by residential building in the Fifties, during which the nation's stock of

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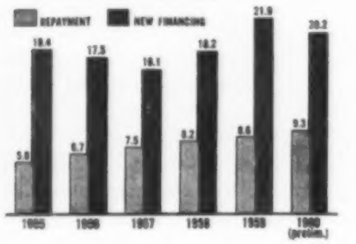
housing increased by 12½ million residential units, or more than a quarter. Combined with this were a number of other debt-boosting factors, including the rising costs of home construction, and easier mortgage terms through reduced downpayments and longer maturities.

While the average newer home buyer may feel he has a long way to go before he sees an appreciable effect, for millions of others who have met the payment schedules over a period of time amortization has been building up an increasing equity in the home, irrespective of any valuation windfall resulting from rising real estate prices. The figures likewise show that hundreds of thousands of other persons have figuratively "burned the mortgage" on their homes every year during the last decade as their debt repayments achieved the ultimate dream of every homeowner—a house free and clear. Many of these are in the later years of life, with a higher-than-average proportion of debt-free homes among those 65 years old and over.

HOME MORTGAGE DEBT REPAYMENT



Beyond this impact on the financial well-being and security of the individual and the family, debt repayment has an important influence on the economy through its feed-back of lendable funds into the nation's credit and investment stream, and thus reinforcing the process of savings and capital formation upon which our high-investment economy is based.

This return flow of funds from amortization and mortgage debt prepayment is of particular importance to the life insurance companies and the nation's other thrift institutions, which are not only the principal lenders on residential building but are likewise the source of much of the economy's other capital and investment funds.

A few figures will illustrate the importance of the workings of amortization and voluntary prepayments in relation to the financing requirements in the home mortgage field in a period of record demand such as occurred during the Fifties.

The annual need for new funds to finance the purchases and sales of new one-to-four family nonfarm homes and existing homes in this classification, net of any refinancing of debt involved in such transactions, grew from around $11 billion a year in the early years of the last decade to more than $20 billion a year in 1959 and 1960. In 1950 and 1955 amortization and prepayments suppiied less than a third of the new home mortgage funds needed in those years. Since 1957 they have been contributing two-fifths or more of the annual totals.

Over the past decade, the number of debt-free one-to-four family nonfarm homes has grown from under 23 million in 1950 to almost 27½ million in 1959, an average of around 500,000 a year. However, the number of mortgaged homes has shown a substantially greater increase, rising by more than 6 million in the period. As a result, the number of debt-free homes represented less than three out of every five one-to-four family nonfarm residential properties in 1959 as against nearly two out of every three in 1950.

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LIFE COMPANIES EARN MOST SINCE IN 1933

The net rate of interest earned on invested life insurance funds, before federal income taxes, rose to 4.11 per cent in 1960, highest since 1933. This compared with 3.96 per cent the year before and a 3.61 per cent average for the past 10 years.

This before-tax earning rate, however, is not comparable with the rates of the 1920s and 1930s as a measure of usable funds, because of the huge rise in taxes. In 1933, for instance, Federal income tax payments were negligible, but by last year they had risen to well over $500,000,000.

The net investment earnings of all U. S. life companies in 1960, before taxes, totaled $4,600,000,000, an increase of $400,000,000 over the year before.

The earning rate on life insurance funds has been improving steadily since 1947, at which time the all-time low point in earning rate was reached. The 1947 rate was 2.88 per cent. Last year's rate was nearly half again as large, but the increased aggregate of taxes would sharply reduce the effective gain. This reduction cannot be measured, as it is not possible to compute an industry-wide after-tax rate under the new Federal Income tax formula applying to life insurance.

As good as recent gains in earning rate have been, the current rate is still about one-fifth smaller than the average rate of the 1920s. The earnings rate ran as high as 5.18 per cent in 1923.

Gains in investment earnings and improvements in mortality are two of the chief factors in holding down or reducing life insurance costs.

LIFE COMPANY REALTY IS OVER $3½ BILLION

The real estate portfolio of life insurance investments includes properties in every state with New York, California, Illinois and Pennsylvania leading the aggregates of realty held for investment. This investment realty is largely the development of the years since 1946, when the New York law was liberalized to permit holding commercial and industrial properties for rental purposes.

The aggregate holdings of real estate by U. S. life companies at the start of last year were $3,651,000,000, all but 1 per cent being investment in U. S. properties. About three-fourths of the total, or $2,700,000,000, was in commercial and industrial rentals or rental housing, the balance being in the companies' own office buildings.

New York led the list, with $849,100,000 invested by the life companies in realty, only 15 per cent of which represents company offices. California accounts for $557,700,000 of the companies' real estate investments, only 8 per cent of which is company offices. In Illinois, the companies have $266,100,000 invested in realty, 26 per cent of which is company office properties. In Pennsylvania, they have $197,800,000 of real estate, only 7 per cent being company offices.

Realty investments in other states include: New Jersey, $117,500,000; Massachusetts, $161,200,000; Texas, $158,300,000; Ohio, $150,800,000; Connecticut, $91,200,000; Florida, $86,800,000; Virginia, $78,€00,000; Indiana, $59,800,000; Tennessee, $47,000,000; Missouri, $44,500,000; Wisconsin, $44,500,000; Nebraska, $42,400,000.

Real estate investments of the life companies are expected to reach $4,000,000,000 this year, of which slightly over $1,000,000,000 will be home office properties, about $400,000,000 will be rental housing, over $2,300,000,000 will be commercial and industrial rental properties. This last part of the portfolio represents business and industrial housing for practically every type of activity in the country. Chain stores, local department stores, factories, office buildings, warehouses and a broad range of realty are thus owned by the life companies and rented, usually on long term lease, to businesses coast to coast. A large segment of the portfolio is "lease-back" properties.

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OUR UNIVERSITY ONCE INVESTED IN MORTGAGES

AND IS NOW DOING SO AGAIN

In our search for new markets for our mortgages, how important is that one we once had for a small volume of loans, the colleges and universities? When we think of new markets these days, we think mainly of the pension funds because their current participation in our investment medium is their first and they represent a vast aggregation of capital. Many great educational institutions, however, have traveled our road before and they have rapidly increased endowment funds. This is the experience of one great university that was once in mortgages, then left the field and now is coming back, but, as the author says, rather slowly at first.

By **ROBERT M. UNDERHILL**
Vice President and Treasurer of the University of California, Berkeley

THE INSTITUTION, of which I am an officer, years ago made mortgage loans but later for a considerable period practically excluded this investment medium. Recently it has re-entered the field—and the reasons why may be of interest. This could be a repetition of the rejoicing on the return of the wayward son to the home and the principles of the family. In this case, however, it may be that the black sheep has not really become snowy white, but only a dark grey. But the shade can, under certain conditions, lighten, and this may be slowly happening.

But first let's look into some history of my institution's investment practices during the 30 years I have headed its investments division and a little prior to that. A university has many activities and many different operations with different requirements. Upon the creation as a separate department of the one I administer, there was a strong recognition of the distinct obligations of a trustee and the necessity of viewing the investment aspects as would a trust officer of an officially recognized trust company. At that time, our total fiduciary account totaled about $16,000,000 with many separate trusts to benefit individual projects or departments and in seven distinct areas in the state. I was instructed that my duty was to judge all investment items with a view to the trust beneficiary as distinct from the trustee, even though the University was both. Under this principle, funds must be invested with total over-all benefit to the University.

Then started the first change, particularly as it affected the mortgage field. In 1930, of the fiduciary funds mentioned above, 60 per cent were in the mortgage field, either as direct and separate loans or in real estate bonds, and 80 per cent of the account was based in California. From my long length of service you can be sure that I have had some experi-

> *"We now recognize mortgage loans of high quality as having a place in our portfolio and are continually working toward a stronger position in this field though I doubt that, percentage-wise, it will for years appear large in comparison with our stock and bond percentages . . ."*

ences in relation to investments in general and real property in particular that were not all pleasant. As a boy, I saw my native city largely consumed in a conflagration. A similar but less drastic one took blocks of the city in which I now reside. The depression of 1929-1934 caused failure after failure, and with it went the fee title to many properties. California was paying its bills in registered warrants (which, by the way, I was buying at good, short money rates).

All of these experiences had a part in changing our investment policy.

The University in the Twenties was almost entirely supported by the State of California. Though small, its outside income was growing in importance. The permanent fiduciary account now exceeds $170,000,000 with perhaps half again as much in short-term investments for near-term expenditures.

Based upon this trend, it seemed prudent to gradually move the investment base away from the general support base, which has been, of necessity, growing because of the increase in population and the greater complexity of California's economic, agricultural and industrial needs, lest a local or regional set-back could compound the operational difficulties of the institution.

Moving the investment base from the locality where the security can be accurately and personally assessed frequently was one reason for a shift in the mortgage loan percentage. In former days, it was quite the practice to make fraternity house loans. But, to me, this always seemed a questionable practice, since, should bad times set in, how can a parent force his children to repay, what can be gained by taking over fraternity house property, how and to whom do you sell it if foreclosure is necessary? And, should you do so, the student housing situation becomes more acute than ever. In declining to make these loans and to gradually have them liquidated, I have not endeared myself to students and deans; but had such properties been taken over, this feeling would have been worse. The absence of men in 1941-1946 proved that this policy was correct and we are now out of this type of loan.

Now, what of some of the other types that we have had—and suffered through? We have had few foreclosures and few losses with the exception of sleep and time that could have been better expended. We did have such things as a church hospital, a submarginal farm, an orchard and small winery supposed to be in line for a subdivision, the middle part of a hotel, a mismanaged office building which we took over and rehabilitated with excellent results, and so on.

I do not want to leave the impression that all was bad—that was not so. But all this did point out a lesson: the properties were spread over an area from the Upper Sacramento Valley almost to the Mexican border. With an account which was not large enough to justify a staff large enough to know values all over the state and to be expert in hospitals, farms, wineries, and hotels, such investments could not be continued. Consequently our departure from this field, after these experiences, should occasion no surprise.

Our volume then did not put us in a position to regularly make loans in amounts large enough to attract the best loans. The banks, of course, are constantly in touch with the needs of their depositors; and it is of interest to a business to keep its banking connections in good order. The trust divisions of the banks have access to information from the credit department that enables them to decide immediately on a loan value through their appraisal officers—and they tend to invest, to a great extent, in their own localities, thus permitting constant surveillance. The loan representatives of the insurance companies, being real estate concerns, have up-to-date knowledge of real estate trends, transfers and values; and with a steady source of investment funds, they can place the better loans with the insurance companies immediately.

How, then, could an institution with an irregular flow of investment money be in a position to compete? The result often was that loans not acceptable to banks and insurance companies would be offered to us.

In the investment problems of a state institution, the personal factor enters. There are friends of those who may be in a position to further the interest of the University. There are prominent and helpful alumni who, from time to time, may ask consideration of properties they represent. And there are always the desires of departments for the use of investments for facilities with the thought that subsequent annual appropriations will liquidate the debt. There is, likewise, an occasional suggestion of a loan, on a marginal situation, because it might produce a larger current yield. These are matters a trust officer must examine and must always continue to judge at arms length.

The individual home loan is, for banks and insurance companies, an acceptable investment. But what is its position for a university? I know of one college that buys property and invests in loans all over its town. In this case, it is rather simple to make the appraisal and rather easy to keep in touch. But could we choose any one locality—and exclude others without some notice from those who contribute to our support? And should we enter into this medium and be required to foreclose we would create more ill will in the act of displacement than would a private financial institution; and, further, if the property came into our hands, it would then be tax exempt and the cause of more difficult public relations.

In the Twenties, the investment activities were carried out by officers with more pressing duties. There were no specialists (even if we are now charitably presumed to have them) in the investment field, and, likewise no security manuals or services. Growth necessitated building a department, engaging personnel and following the investment field intensively.

The greater certainty of investment funds being regularly on hand gave an opportunity of encouraging offerings. No longer were applications received without reasonable, though perhaps not always acceptable, merit.

The tight money situation of the last two years or so led banks, especially in the East, to invite our participation with them in large loans. In this manner, with a silent and undisclosed partner, the bank can accommodate its usual customer even though its funds are not plentiful. We now have five such participating interests with eastern banks and have had one, since repaid, with another such bank. It is interesting that in no case did we previously have money on deposit with those banks and had no such direct relationship. With some we have since made that connection.

Another interesting fact is that only one of these opportunities came as a result of our being put in touch with such a loan by a California bank—and we have many large deposits to cover our operating needs in California banks. It is almost exclusively in California that our funds are kept. There are now situations where we enter into these arrangements whereby the earlier maturities are in favor of the banks, the later ones to us. Interest, however, is paid currently to both, the bank acting in all cases as manager without charge. Its benefit is continuous accommodation to its clients even though its lendable funds may be short.

The matter of a finder's fee is sometimes a problem. Basically, the cost of obtaining a loan for years was met by the borrower, but as the demand for prime loans increased due to increase in insurance accounts, savings accounts, and particularly the newest substantial competition, the pension fund, this cost sometimes is shifted to the lender. To some investors, this is not important. Especially true is this in the case of pension funds and insurance. But to a trust fund such as ours, and also to banks, it makes some difference.

The Income and Principal Act of California prevents the amortization of premiums as a reduction of coupon interest on bonds; and it has been held by counsel advising us on this problem that not only may we not amortize premiums but we may not charge against interest on mortgages the amortization of a finder's fee over the life of the loan or charge it against the first six or so months interest. Over the life of a thirty-year bond, this reduction of capital at the end of that period is not very significant. But a reduction in return of capital on a ten-year and especially on a five-year loan raises questions.

Donors are always interested in what transpires with their gifts and in a short period may be examining how the fund has fared. They could, of course, specify permission for write-offs in the trust instruments, but they or their attorneys seldom do. Nor do the officers of trust companies, through whose fine services so many permanent endowments for the University's benefit are suggested. Of late, fortunately, the increased value of common stocks in the total consolidated fund has increased the participating value of the trusts in funds which may be pooled and the decreases are not noticeable. It is, of course, noticeable where a fund may not be pooled and must be placed in fixed income investments.

The finder's cost is not, in all cases, an insurmountable drawback but it must be considered with every other factor of lending need and available media.

As an investment, the mortgage loan must compete for our funds with every other investment opportunity—especially in the free discretion by the Board in a consolidated fund. While in a growing fund where income alone is expected to be expended, marketability of each separate item is not a necessary requirement, there are adjustments in policy that, at times and because of interest situations make the mortgage both more or less attractive than a marketable bond. It requires more frequent attention than most high-rated bonds and if the yield is not reasonably greater, the bond may be preferred, although this preference can easily be reversed by a number of circumstances.

Our first serious returning to the mortgage field started a few years ago when high-grade bonds were yielding perhaps $2\frac{7}{8}$ per cent to 3 per cent. At that time, we started accumulating FHA loans on a small basis. While \$14,000 to \$17,000 loans, with monthly payments of principal and interest, individually require a bookkeeping cost out of proportion to the size of our account where our usual investment minimum is \$100,000 with a maximum of approximately \$5,000,000, the fact that a real estate or mortgage company makes the collections and does the monthly bookkeeping lessens this problem. The possibility of having to acquire these properties is probably not serious as we would not have to take on the property ourselves as the loan is insured. When sold to us at a 4 per cent rate and anticipated twelve-year pay out, the yield on the first group was expected to be 4.25 per cent. Of the original 83 loans totaling \$1,000,000, only five have been repaid. Considering the interest on those loans as compared to today's rates, I doubt if we will have an average twelve-year pay out on this group. However, since investments must be made regularly in an account of our type, the yield was better than the yield on bonds at that time, and we have no regrets. With those acquired in the last year at yields anticipated on a twelve-year pay out basis of from 5.4 per cent to 5.8 per cent on $5\frac{3}{4}$ per cent loans, early payment may be more generally realized. As a matter of fact, one of these was paid out within six months of issuance.

Other loans we have made have been on service stations leased to large companies where the leases are non-cancellable and pledged, warehouses where the leases are of similar standing, pledged and the loan guaranteed by a concern whose stock we regard of satisfactory investment quality, oil lands where we participate with banks and where we accept the opinion of the banks' oil geologists and appraisers.

How do other universities regard mortgage loans? These statistics and comments are from a report of the United States Bureau of Education, entitled "College and University Endowment Investments" issued in 1958.

"Of the total investment of \$3,800,000,000 reported by 200 colleges which held 85 per cent of all college endowment funds, mortgages represented 3.60 per cent of the total book value, 2.82 per cent of the market value, and provided 3.35 per cent of the total income. The average yield on the mortgages at book value was 4.64 per cent, whereas the yield on the total investment account was 4.91 per cent. Because of the appreciation in the value of other investments, the average yield based on market was 3.84 per cent. The mortgages

(Continued page 34, column 1)

THE SUBJECT of the relationship between commercial banks and mortgage companies and the appropriate functions of each may be a touchy one. But, touchy or not, it seems to me to be a subject that should be faced candidly, since it involves not only the common welfare of both groups, but also that of the public that both of them are here to serve.

I think we have a real issue here, because, more and more, I find each

He must have credit for construction financing, and he must have facilities for warehousing uncommitted loans, for he frequently needs a marketing period for his merchandise.

All this is essential to the effective operation of a mortgage company. It is also very good business for the commercial bank. But this is by no means where the mutually beneficial relationship ends. In the course of his business, the mortgage banker is responsible for the collection of the interest

Mortgage Bankers and Commercial Bankers-- The Role of Each One In Mortgage Financing

group acting, or, better, attempting to act, as if it could get along without the other or, to a large extent, even displace the other. In this effort to overlap functions in order to gain a presumed immediate selfish advantage, the greater benefits to the public as well as to themselves of developing further their historical relationship may be lost sight of.

Let us first take a look at this historical relationship. The mortgage banker definitely needs the commercial banker. In carrying out his specialized functions, the mortgage banker requires short-term bank credit. In fact he must have large amounts of it. He must have credit for carrying committed loans until they are ready for delivery and often until delivery is called for by the permanent investor.

and principal on his mortgage accounts as well as prepayments of taxes, hazard insurance, and mortgage insurance. All of this swells the deposits of the commercial bank.

The volume of the deposits at the disposal of the mortgage banker is very large. It results from the fact that, on a national basis, mortgage companies today are servicing more than one-fifth of the total home mortgage debt and nearly half the outstanding debt insured by the FHA or guaranteed by VA. In many areas the proportion is much larger. In my own state of Georgia it is nearly 40 per cent of the total. And none of this includes the considerable amount of debt being serviced on apartment and business property.

It is therefore safe to say that the

manifold activity of the mortgage company is as good business for the commercial bank as the service rendered by the commercial bank is good for the mortgage company. All this makes for a compatible and profitable relationship for both sides. I believe it is an ideal relationship, because it permits the commercial banker and the mortgage banker each to function in the way in which his training and his aptitude best suit him.

It is consequently to the advantage of each that this relationship be preserved. The mortgage banker wants to nance. I have heard this complaint expressed frequently in my travels about the country.

The proposed answer to this problem—as it is to most problems we encounter these days—is to turn to government. Consequently, there have been proposals looking toward broadening the authority of the Federal National Mortgage Association so as to permit lending on the security of mortgages as well as outright purchasing of mortgages.

Some proponents of the idea see this as a supplementary facility—and per-

Mortgage bankers and commercial bankers have traditionally been partners in mortgage finance, each with his own area of activity

Have conditions and developments indicated a change — or a strengthening of the present system? Let's examine the facts of the matter

By **MBA PRESIDENT ROBERT THARPE**

keep at hand a dependable local source of interim credit. The commercial banker—I should think—wants to keep this business and to retain the profits that flow from it.

Because no relationship works perfectly, or because indeed it may work so well that we take it for granted, or because all of us are ambitious and impatient and competitive, this well established relationship, to some mortgage companies and to some commercial banks, does not appear to be enough.

On the part of some mortgage bankers as well as among Realtors and builders, there has been a growing feeling that commercial banks have not been dependably and efficiently—I might also say, sufficiently—meeting interim credit needs for housing fi- haps an actual substitute—for the warehousing, or interim financing, of mortgages by commercial banks. Considering the present direction of government policy toward greater intervention in the market process, it could be just that.

I am not convinced that this would be a desirable departure. Aside from depriving commercial banks of an attractive and economically useful type of business, it would unavoidably lead to increased government influence and control of our home mortgage credit system. It would work against the development of strong, responsible, and independent mortgage lending institutions. In the end, it would almost certainly limit the free access of borrowers to the market.

A much better course would be a cooperative effort among commercial bankers and mortgage bankers to solve this problem, to the extent that it really exists. I should like to see representatives of both groups sit down together and make a thorough study of the interim credit needs of mortgage originators and offer suggestions for their better satisfaction—by private means and not by government means.

Unless such cooperative action is taken—and taken quickly—this proposal for the expansion of the FNMA authority is likely to gather support—perhaps enough support to bring about its enactment in the present Congress.

At the same time as we find mortgage bankers searching for means to reduce their dependence on commercial banks, there is a growing apprehension among mortgage companies that the commercial banks would like to eliminate *them.* Again, as I travel about, I find that the impression produced by the ABA mortgage workshop sessions is that the objective is just this.

We know that, from the beginning of banking in this country, many commercial banks have included mortgages — though usually short-term mortgages—among their own investments. Mortgage bankers certainly have no objections to the inclusion of mortgages of any kind in a bank's portfolio—even though, just recently, the Federal Reserve Bank of New York offered some criticism of the banks in its district for an undue emphasis on long-term loans.

I should like to quote this admonition. "The expansion of term loans," so states the Federal Reserve Bank, "entails certain drawbacks. The primary function of commercial banks, whose principal liabilities are deposits withdrawable on demand, remains the meeting of short-term credit needs.

"When commercial banks get loaded up with term loans," the New York Bank said, "they lose flexibility because term loans are not readily shiftable, and this may deprive borrowers of access to needed short-term credit."

It is, however, not this issue that primarily concerns mortgage bankers. As I have indicated, if commercial banks wish to take advantage of the high yields on mortgages *for their own accounts,* that is a matter between them and the banking authorities.

Recently, however, there has been a growing practice among commercial bankers to originate loans for the purpose of ultimate placement with other investors—in other words, to operate a mortgage business along the same lines as those of the mortgage company.

Mortgage bankers cannot—at least, they should not — complain about competition. They have grown to their present scope and strength amid the strongest kind of competition, both with one another and with other types of mortgage lending institutions. Their sole excuse for existence is that they can withstand competition and, amid the claims of others, demonstrate their ability to provide a public service not otherwise so well performed or so broadly available.

In doing this, mortgage bankers have become specialists in this kind of business—and mortgage origination and servicing is definitely a specialty and a most complicated one at that. Included in it are the following tasks:

- Selecting mortgages, with the investor's special requirements in mind.
- Establishing relations with a broad enough group of investors to meet the borrowing demands of the local market.
- Arranging to carry the loans until ready for delivery—or until the investor is ready to have them delivered. Often included also is the provision of construction financing and keeping a close eye on the construction process.
- Handling the numerous and intricate details of completing the mortgage transaction.
- Handling the equally complex and tedious details of collecting and reporting.
- Dealing with delinquents, a task that more and more is adding to the cost of servicing.
- Finally, if need be, carrying through foreclosure and the attendant responsibilities of transferring property and of obtaining settlement with the Federal Housing Administration or the Veterans Administration, where this is involved.

All this requires special aptitude, special training and experience, and special organization. It also, I may say, involves special business risks.

I would raise this question: is this complicated and specialized business a desirable—or even an appropriate—business for a commercial bank? I would ask: does not the singleminded attention that mortgage servicing requires distract from the equal concentration required by the more basic operations of a commercial bank? Or —put another way—is the top management of a commercial bank able to give to mortgage servicing the attention that is the primary function of top management of a mortgage company to provide? I would go so far as also to ask if the two types of activities are really compatible in the same institution. Certainly, in the early 1930's, many banks learned that they were not.

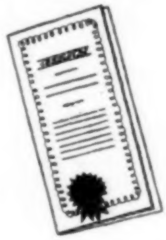
I may be wrong—and I am sure I shall not get full agreement—but I have an idea that specialization is a good thing and that it is also a good thing to let the specialties be handled by the specialists. In short, I feel that the two groups of institutions will serve the public better if each devotes itself to its natural specialty and develops a close and efficient working relationship with the other in those areas where reciprocal action is called for.

I urge that the two groups work toward the further advancement of these mutually advantageous arrangements. I urge this because, quite frankly, I believe that mortgage companies can handle a general mortgage business involving correspondent-investor relationships with more effective concern for the broad public interest than any other instrumentality that has been devised.

Finally, I urge this because it gives both groups jointly the opportunity to prove that, within the private credit structure, there exists the means for satisfying the financing requirements of home builders and home buyers, without inviting unwelcome instrusions of government. Our organizations not only have the opportunity to do this. They also have the responsibility and obligation to do it, if they really believe in the desirability of free private institutions and of limited government.

I have said on other occasions, and I repeat it here, that our private credit institutions face a new test of their effectiveness. We have a new and

"I may be wrong—and I am sure I shall not get full agreement—but I have an idea that specialization is a good thing and that it is also a good thing to let the specialties be handled by the specialists. In short, I feel that the two groups of institutions will serve the public better if each devotes itself to its natural specialty and develops a close and efficient working relationship with the other in those areas where reciprocal action is called for. I urge that the two groups work toward the further advancement of these mutually advantageous arrangements. I urge this because, quite frankly, I believe that mortgage companies can handle a general mortgage business involving correspondent-investor relationships with more effective concern for the broad public interest than any other instrumentality that has been devised."



much different administration in Washington than we have had during the past eight years. We must ask ourselves just what we can expect the attitude of the new national leadership to be toward private credit and its institutions.

While I do not sense that this new administration is hostile to private institutions, I am sure it does not find anything sacred about them. I believe that the new administration would like to depend on them, but it will not take their dependability for granted. It will be critical of both their claims and their performance. It will not only be critical; it will also be impatient. It will not allow that these institutions have a mandate to exercise exclusively any particular function. If there are any mandates around, it will assume them itself. It will not hesitate to experiment or move in untried directions if events appear to require it; and it will not be above a little shock treatment now and then.

We should not mind the shock treatment in itself. It probably has certain therapeutic qualities. But we need to keep alert to the disturbing fact that it is not the willingness to take bold action that may endanger the private credit system but the apparent lack of understanding with which bold action may be taken.

The premature reduction of the maximum permissive interest rate on insured mortgages is a case in point. It was designed to promote an increase in the volume of home building by "nudging" an already declining rate. Whether or not the move accelerated the existing trend, no one can positively say. All we know is that the general trend has continued downward. But that it promotes an increase in home building is open to question.

By increasing the discount on FHA mortgages, the change in interest rate put a further squeeze on builders' profits and so on their willingness to move forward quickly. By suggesting that more of the same sort of medicine was to be administered later, it increased the hesitancy of builders and gave buyers another excuse for waiting. The continuing sluggishness in the volume of FHA applications gives support to these conclusions.

Whether or not the move was more effective in accomplishing its purpose than I think it was, it reveals that, in this administration, market adjustments, for good or ill, are not to be left to the natural working of market forces. It indicates that we are in a time when the credit structure will be increasingly subject to the unpredictables of central planning, when the pressure will be to transfer the seat of decision-making from the market place to the political arena, and when agencies of government will more and more be used to do the tasks that historically have been in the hands of private institutions.

It might all be a matter of the survival of our system

The President's Message on Housing and Community Development of March 9 makes this approach perfectly clear. It is the government that is to determine in what areas in the market demand is greatest, by what selective credit devices these areas of demand are to be served, and through what supplemental actions government will make these devices effective.

There may be a question that in any true sense a system of private mortgage credit can survive under these circumstances. The answer, I think, lies in how well the credit system as we know it, and as we wish it to be, can meet the rigorous test of performance under these new circumstances. I am sure this will not be done if any of the elements of the private credit system shortsightedly undermines another in an effort to gain a special advantage. I am sure it can be done, if all of us recognize the subtle danger to which we are exposed and if each element, by functioning cooperatively in the way to which it is best adapted, adds vigor to the whole.

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Canada's Banking System ...a Giant Serving a Nation

And it's quite a different system than the one we know in the United States where more than 14,000 banks operate as compared to nine in Canada. The Canadian banks have branches everywhere, they follow growth and expansion and it is no doubt true that Canadians are better served with banking facilities than any people anywhere. This is a look at how banking is done in Canada, by the head of an institution which operates more than 850 branches.

By **G. ARNOLD HART**
President, Bank of Montreal

MANY MBA members who will be attending the Eastern Mortgage Conference in Montreal on May 18-19 will not be familiar with the Canadian banking system. For them, and for other readers of *The Mortgage Banker* who will not be so fortunate as to make the trip, I should like to describe something of how the business of banking in Canada came to be organized the way it is, how it gets done, what happens as a result, how it fits in with and contributes to other kinds of business.

One or two "flash-backs" into history can well illustrate a central theme of mine, namely that the main structural and operational lines along which today's Canadian banking system has developed were set—and I believe well set—at the very beginning, half a century before Confederation.

It may come as a surprise to know that many of the ground rules adopted by Canada's first bank as the basis of its initial operations were the concept, not of an Englishman or a Scot, as one might expect, but of an American. The Articles of Association under which nine Montreal merchants formed the bank which opened its doors in 1817 were drawn in most of their essential features, and were taken at many points word for word, from the charter of the first Bank of the United States, which had been conceived and founded in 1791 by Alexander Hamilton, the first Secretary of the United States Treasury.

And it remains one of the quirks of North American history that some of these basic features of Alexander Hamilton's bank failed to survive in the American banking system but did survive, and thrive, in the Canadian system.

One such feature was that the first Bank of the United States was set up as a national institution with the right to open branches anywhere in the country, a right of which it took quick and full advantage. Another was that its charter had a time limit of twenty years. A third feature — one not adopted in Canada, fortunately—was that its Act of Incorporation prevented the opening of any other national bank during the term of its charter. In the two decades of its existence, strong opposition to it developed from quarters which regarded its exclusive national scope as a violation of State rights and an undesirable concentration of financial power; its charter was not renewed when it lapsed in 1811. As a matter of record, a second Bank of the United States was founded five years later, again a national institution with a twenty-year charter, but it, too, failed to survive beyond 1836. Since then, even with broad national banking legislation that was first introduced in 1863, under which a great many U. S. banks are now incorporated, few are allowed to operate beyond the limits of one state. Indeed, of more than 14,000 independent banks that now serve the United States, comparatively few have branches outside one city.

The Canadian bank patterned after Alexander Hamilton's conception also bound itself by its Articles of Association for only twenty years and its first Royal Charter obtained in 1822 had a limit of ten years. There were no restrictions on new outlets and it lost no time in establishing offices, the first at Quebec two weeks after it opened its doors in Montreal and others at York (Toronto), Kingston, Queenston, Amherstburg and Perth, all of the last five in Ontario, within a few years.

The charters of later Canadian banks, and the federal Bank Act, which has been the common charter of all Canadian banks since 1871, retained many of the features of the

Bank of Montreal's original Articles of Association of 1817. Branch bank extension has thus been the rule rather than the exception in Canada and the nine chartered banks today have between them over 5,000 branches or sub-agencies in Canada, of which some 1,900 have been added since 1945 to catch up and keep pace with the growth and dispersion of Canadian population and business in the war and postwar years.

Canada is today better equipped with banking facilities than almost any other country in the world. There is, for instance, a branch or sub-agency for every 3,600 Canadians; there is a banking office only for every 7,400 persons in the United States.

The more I see of banking, the more am I convinced that a branch system has been particularly well suited to Canada's needs. We are a people strung out across a wide continent, living mostly on the southern fringe of our country, very heavily concentrated in a few areas, very sparsely scattered through the rest; a population growing in recent decades at a more rapid rate than that of most other countries of the world; a people shifting, always shifting to new frontier settlements and, at the same time, swarming towards the metropolitan suburbs both from within and without the established cities.

Canada is a country of very diverse regions, diverse resources, diverse problems and diverse opportunities.

Yet it has been kept one country by its constitution, its transportation and communications systems and in many other ways, all of which are, at root, expressions of the will of its people.

In all these respects—in its change, in its diversity and in its unity, Canada has been well served by a branch banking system.

A branch network in effect pools the wide variety of banking business characteristic of different regions and pools the range of attendant risks. At the same time, it pools financial resources wherever they accumulate and makes them available, usually some place else, where they are needed. It is the rare branch whose loans match its deposits; but in a Canadian bank the problems of excess deposits or excess loans are not problems of an individual branch. They are offset in the consolidated accounts of the bank as a whole and the residual problems of maintaining liquidity and administering a portfolio of securities as a cushion are centered in relatively few hands at the head office.

A branch network is thus very flexible; it can and does expand into new areas as banking facilities are required and it grows as a whole with the country's growth, at the same time *contributing* both to new settlement and national growth. Every branch provides a full range of banking services at approximately uniform rates to the customer, be it the main office of a metropolis or a branch opened in a trailer or other temporary quarters in a remote mining camp.

A branch Canadian bank is both a national institution and a local unit

Canadian banks are at once both local and national institutions. In my own bank, and I am sure it is true for others, we place great importance on giving our officers diversified experience in branches of all sizes and in localities of all kinds. They thus come to see Canadian business and banking from many angles and when their responsibilities are enlarged and extended over wider areas they continue to appreciate the position and viewpoint of a particular branch manager.

On the other side of the shield, there are of course obvious operational advantages in standardizing forms, routine procedures and administration for a large number of units. But more than that, the nation-wide operation of a Canadian bank insures fair and equitable treatment to its customers right across the country.

By virtue of their branch networks, our banks certainly qualify as big business. Of the eleven largest banks in North America, three are Canadian. Their size does not prevent them, however, from having a local point of view in the multiplicity of matters with which they deal.

As I said before, the foundation stones on which our banking system in Canada has developed were well and truly laid at the outset. Branch extension has been the structural framework of that development, a framework that has proved firm but flexible.

Another feature has also been a continuing fixture and at the same time has further contributed to flexibility of operations, that is, this matter of the time limit of a bank charter. So far as I am aware, Canadian banks are unique in having an Act, under which they have operated for nearly a century, which has expired at regular ten-year intervals.

To those associated with firms incorporated in perpetuity under Companies Acts, this may seem an odd way to do business. Let me assure them that, despite the extensive preparation and no little trouble involved, the banks favor, and indeed welcome, the decennial revision and renewal of the Bank Act.

It provides an opportunity for the Canadian House of Commons Committee on Banking and Commerce, comprising fifty Members of Parliament of all political views; for Canadian business, agriculture and the public at large; and for the banks themselves; to subject to searching scrutiny, in the light of changing conditions, the 160 or more sections of the Act, and to advance suggestions for the improvement of banking techniques generally.

Out of the eight revisions of the Act since 1871 have come innumerable amendments. Some of these were concerned with adding safeguards for the protection of depositors, noteholders and shareholders and their success is to be judged by the fact that there was no failure of a Canadian bank during the depression of the 1930's when so many United States banks were closing their doors. Other amendments provided for the adaptation of banking practices to contemporary needs. For example, the 1954 revision enabled the banks for the first time to lend against insured and rediscountable mortgages under the National Housing Act, but not against conventional mortgages; the ineligibility of conventional mortgages as primary security for a bank loan has always been a feature of Canadian bank law and was, incidentally, a feature of the first Bank of the United States which was later dropped. The 1954 revision of our Bank Act also permitted loans against chattel mortgages and against oil and gas in the ground. Undoubtedly further amendments will come out of the next revision scheduled for 1954.

By no means all of the changes suggested are adopted. But the whole process of revision, which occupied over fifty sittings of the Banking and Commerce Committee last time, provides a public forum for the discussion of banking that plays no insignificant role in public education on the subject.

"Canada is a country of very diverse regions, diverse resources, diverse problems and diverse opportunities . . . in its diversity, and in its unity, Canada has been well served by a branch banking system."

The amendments to the Bank Act that are accepted by the Banking and Commerce Committee, and subsequently by Parliament as a whole, may fairly be said to place the banks in a better position to meet the developing requirements of the economy without fundamentally altering the time-tested principles on which the Canadian banking system has been built.

I doubt, however, that these qualities of adherence to principle tempered by adaptability would in themselves have accounted for the size and shape of Canadian banking had they not been accompanied by another element that has always characterized the system, and that is the spur of competition.

Competition between banks is probably keener in Canada than anywhere else in the world. Of the ways in which they compete there is no end. Branch extension is of course one. Another is in their primary function of providing the money facilities with which the country conducts its business and it is this that I would like to illustrate briefly in the perspective of another historical "flash-back," for it throws much light on some distinctive features of Canada's banking system to which I would like to draw attention.

In the early days, one of the most urgent needs of pioneer communities was for a medium of exchange and this the banks provided under powers conferred in their charters by issuing their own notes. At that time a bank's resources were derived almost entirely from the issue of capital stock and the issue of notes, for deposits as we have come to know them were rare.

The now-familiar form of bank liability to the public—the deposit—evolved and expanded much more slowly, in the beginning, than the bank note. To take the example that comes most readily to mind, the Bank of Montreal had been operating for over forty years before its deposits exceeded its outstanding notes. At first, a deposit took the form of a deposit receipt on which no interest was paid. It was competition that later introduced the interest factor. Later still came the book deposit—the "money of account" that now forms the bulk of the nation's total money supply.

Early in Canada, savings banks began to be formed but, unlike the commercial banks, they were typically local institutions. Quite a number were formed and in the 1850's the chartered banks, in response to this form of competition, began to go into the savings bank business. In 1856, the oldest Canadian savings bank was taken over by the oldest chartered bank to become the first savings department. Gradually, other banks started savings departments, specifying that one client could deposit only a limited amount and that withdrawals must be made in person, with no checking privileges, and with the bank reserving the right to insist on prior notice of withdrawal.

But by the turn of this century, competition for savings deposits had become very keen and when some banks advertised that savings depositors might issue checks, all commercial and savings banks soon followed suit. Thus Canadians came to enjoy the privilege, rare elsewhere, of writing checks on a savings account. Moreover, the bank's right to demand notice of withdrawal, while still inscribed on the flyleaf of a pass book, has virtually never been exercised.

In according the checking privilege, the chartered banks, with their branch networks, were obviously at an advantage and in time took over most of the local savings institutions. Thus the bulk of Canadian savings deposits came to be held by the chartered banks. While there are various other savings institutions in Canada, their relative role is not as large as in most countries. To be specific, about four-fifths of savings deposits are held by the commercial banks in Canada, com-


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pared with less than half in the United States and only about a third in the United Kingdom.

At the end of last December the chartered banks held over $7 billion of personal savings deposits and over $8 billion of deposits in other forms. To say they "held" this total of nearly $16 billion in deposits gives the impression that it was a very large, static, well behaved lot of money that the banks could quietly invest to best advantage. Actually, of course, deposits are continually on the move and it is in handling moving money that the banks render a wide range of services to businesses and individuals. In the process simply of physically moving checks from the point at which they are deposited to the point on which they are drawn, the banks handle over $2\frac{1}{2}$ million items daily, a large number of which pass through their clearing houses in 52 Canadian cities. The value of these checks averaged over $1 billion per business day last year so that, in effect, the banks' $16 billion of deposits turned over about every three weeks. In addition, they handle untold amounts of currency and coinage that pass through tellers' wickets. These services are in every sense available twenty-four hours a day through the growing use of banking by mail and around-the-clock depositories. The banks conduct virtually all foreign exchange transactions in Canada. They also provide facilities for purchasing and selling securities on an order basis and for the financing of the wider range of transactions undertaken by brokers and dealers. They offer a variety of ways of safeguarding "money on the move" by means of money orders, travelers' checks and letters of credit and of protecting securities and other valuables by means of their safety deposit boxes and safekeeping facilities.

Not directly connected with the movement of money but none the less valuable to business is the range of information to be had through banks by virtue of their branch networks in Canada and their branches and correspondent banks abroad. Banks get asked every kind of question under the sun and while they can scarcely be expected to know all the answers, those who ask are often agreeably surprised at the amount of information that can be provided on domestic and

"Canadian banks are unique in having an Act, under which they have operated for nearly a century, which has expired at regular ten-year intervals . . . and the banks favor, indeed welcome, the decennial revision and renewal of the Bank Act."

foreign markets for commodities, on foreign trade, on the establishment of a plant or sales outlet, and so on. No less valuable is the financial counsel and advice that the bank manager is prepared to offer.

To the extent that a bank can hold on to its deposits, it of course invests them, mainly in loans and securities. At the end of last December their loans amounted to over $$9\frac{1}{4}$ billion, of which over $$7\frac{1}{2}$ billion were in Canadian currency. Of the $$7\frac{1}{2}$ billion of Canadian loans, $4 billion, or over half, were loans to industrial and commercial businesses, $2,700 million, or more than a third, were loans to individuals and farmers and mortgage loans to finance new dwellings approved under Canada's National Housing Act, and the remainder were loans to financial firms, provinces, municipalities and institutions.

An analysis of Canadian loans by size, made in September 1960, showed that close to 50 per cent of the total amount consisted of small loans of $100,000 or less. While $100,000 is admittedly not a small loan, it will be appreciated that the great majority of loans in this bracket are in quite small figures. Moreover, under the new Small Businesses Loans Act which has recently taken effect, the banks are now making quite long-term loans to finance the acquisition or improvement of capital assets by small enterprises in the manufacturing, distributing and service industries. Prior to the new legislation and the attendant government guarantee, it has not been possible as a general rule to consider loans of this nature and term as a banking proposition.

The banks and the government in co-operation have also quite recently taken a constructive forward step towards the financing of Canadian export trade. An export finance corporation is now in the process of being organized by the banks and through it Canadian exporters will be assured of credit facilities, both short and long term, that will enable them to compete more effectively in foreign mar-

(Continued page 31, column 3)

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MBA Goes to Canada

May Meeting in Montreal

That MBA meeting of the year which usually attracts the largest investor attendance will be the same this year except that the place and the time is Montreal May 18 and 19 rather than New York where it has been from the beginning. The agenda of topics of this Eastern Mortgage Conference will be about the same as it would have been in New York, except that a number of features will have a direct relation to Canada, where MBA is meeting for the first time. Among these features of the Eastern Mortgage Conference are —

Panel discussion on "New Communities and Their Impact on Our Cities," with the moderator James W. Rouse, president, James W. Rouse & Company, Inc., Baltimore. Participants include Angus McClaskey, president, Don Mills Developments, Ltd., Toronto and D. B. Mansur of Toronto.

Another panel group will discuss "A Comparison of Mortgage Lending in Canada and the United States," with the moderator Mark Gerecke, U. S. Mortgage Officer, Canada Life Assurance Company, Toronto.

Participants will include Stewart Bates, president, Central Mortgage and Housing Corporation, Ottawa (Canada's counterpart of FHA); G. A. Golden, superintendent of mortgages, Sun Life Assurance Company of Canada, Montreal; Theodore H. Buenger, president, Dovenmuehle, Inc., Chicago; Neal J. Hardy, FHA Commissioner; and John M. Dervan, acting director of loan guaranty service, Veterans Administration, Washington, D. C.

Among the major talks to be given at the two-day Conference include "The Gold Puzzle," by Woodlief Thomas, adviser to the board, Board of Governors of the Federal Reserve System, Washington, D. C.

"A Banking Commissioner Looks at the Mortgage Industry," by Edward A. Counihan, III, commissioner of banks, State of Massachusetts, Cambridge;

And "A Review of Developments Affecting the Mortgage Banker Under the New Administration," by MBA General Counsel Samuel E. Neel.

Donald Fleming

Stewart Bates

There will be a luncheon for all registrants on the opening day of the Conference, when members will have the privilege of hearing an address by Donald M. Fleming, Minister of Finance in the Canadian Cabinet.

Other talks to be given at the Conference include one by MBA President Robert Tharpe at the opening session and another by James F. Harris, general manager, Cloverdale Shopping Center, Toronto, on "An Up-to-Date Look at Shopping Centers in Canada." Mayor Jean Drapeau of Montreal will extend a welcome to the delegates at the opening session, as will C. C. Cameron, president, Cameron-Brown Company, Raleigh, N. C., chairman of MBA's Conference Committee this year.

Co-chairmen of the Eastern Mortgage Conference are George L. Campbell, U. S. Mortgage Officer, Sun Life Assurance Company of Canada, Montreal and Sidney A. Shepherd, supervisor, mortgage department, Bank of Montreal.

Fifteen MBA committees, the Board of Trustees of the Mortgage Bankers Research and Education Trust Fund and the Association's Board of Governors will meet during the Conference.

For ladies entertainment, a sightseeing tour has been arranged to Laurentian Mountains, with luncheon at the Chantecler Hotel. This will include a tour of rural Quebec, seeing many small French-Canadian villages.

Woodlief Thomas

Neal Hardy

G. A. Golden

James W. Rouse

T. H. Buenger

Samuel Neel

So You're Going

. . . to the Conference in Canada, MBA's Eastern Mortgage Conference, Queen Elizabeth Hotel, Montreal, May 18-19. Here's a brief guide.

Entrance Requirements . . . Formalities for entry into Canada and departure from Canada are extremely simple. No passport is required of a United States citizen and presentation of a birth certificate or any other acceptable proof of citizenship is all that is required. Other than U. S. citizens can check with any Canadian Consulate for requirements.

Customs Information . . . Your luggage is quickly inspected and is done either at the Port of Entry, aboard trains, or at the airport. Visitors are permitted to bring into Canada a reasonable amount of personal apparel, toilet articles, personal effects, as well as tobacco, and cigarettes. Boxes of cigars should have the seals broken, and a small amount of liquor for personal consumption, still cameras, and eight or sixteen millimetre moving picture cameras, etc., may be imported without permit. Commercial photographic equipment should be registered with the Customs Inspector.

U. S. Visitors, returning to the United States after a 48 hour stay in Canada, may take back, FREE OF DUTY, articles for personal or household use to the extent of $200.00 per person, once every 31 days. (This exemption includes tobacco, cigarettes, foodstuffs . . . 100 cigars and not more than one wine gallon of alcoholic beverages.) A family traveling together (parents or parents with minor children) may group their individual exemptions for the purchase of one or more articles for one member of the family. Purchases to be incidental to —not purpose of the trip.

An additional exemption of $300.00 is allowable once every six months provided resident has been in Canada more than 12 days. This exemption excludes tobacco, cigarettes, cigars and alcoholic beverages. For all articles acquired in Canada declaration must be made by returning residents at Port of Entry on U. S. Custom FORM 6059 and exemption claimed on articles not accompanying residents and for articles shipped in bond.

It is suggested that in order to facilitate matters, residents have their sales slips and purchase invoices, covering articles acquired during their stay in Canada, readily accessible. List purchases before reaching the border. Pack baggage to make inspection easy. If possible, pack separately articles acquired in Canada. This will speed you through Customs.

A gift to the value of $10.00 may be mailed during each day of the visitor's stay to a friend or relative in the U. S. A. without being deducted from his exemption.

Money . . . The Official rate of exchange fluctuates daily in a range of a few cents. It is recommended that money be exchanged to Canadian Dollars before leaving home. These may be purchased through your own bank or in the form of Travelers' Checks payable in Canadian Dollars. U. S. Dollars are accepted in small denominations in payment of purchases or services almost everywhere in Canada at the Official Exchange rate in effect. Travelers' Checks payable in Canadian Dollars are acceptable everywhere in Canada and no exchange is involved.

Language . . . Naturally, all first-class hotels, stores, restaurants and offices have bi-lingual staffs to converse with you in English or in French.

Transportation . . . There are excellent and modern transportation facilities of all kinds in Canada. The modern streamlined air-conditioned trains of the Canadian National Railways and the Canadian Pacific Railways, with up-to-date pullman and dining car service, provide speedy and comfortable transportation to all ma-

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jor cities and towns and connect with most of the major cities in the United States. Trans-Canada Airlines operates a trans-continental service between all major cities in Canada with the most modern equipment available. Connections can be made from many U. S. cities and T. C. A. directly serve Boston, New York, Cleveland, Detroit, Tampa, Chicago and Seattle.

Highways . . . First class highways in the United States leading to Ports of Entry into Canada, have their counterpart on the Canadian side of the border, and all lead over broad scenic routes into Montreal. Montreal is the hub of an extensive system of major highways which are completely paved throughout.

Montreal is . . .

- Less than 50 miles from the United States border.
- The largest city in Canada and the second-largest French-speaking community in the world.
- Gateway to the St. Lawrence Seaway.
- The world's greatest grain shipping seaport.
- An international railway transportation center.
- Departure point for trips to historic city of Quebec, the lower St. Lawrence, the Saguenay region, the Gaspe peninsula.
- Portal to the Laurentian Mountains—year-round resort area.
- Terminal of trans-Atlantic and international air and steamship services.

Automobile Permits . . . Upon entering Canada with your car, drivers are requested to have their driver's license, regular license plates on their cars, and owner's license or authority to use the car. A tourist cannot sell or dispose of his car while in Canada and must return to the United States with it.

Auto Rental . . . As in major cities the world over, Montreal has Drive-Yourself Service. Newest models of several makes of automobiles may be rented by visitors to the city. Offices of Drive-Yourself companies are conveniently located at the airport, railroad stations and bus terminal.

Weather . . . The seasons are defined in Montreal. April to June is mild, July to mid-September warm, and September to November mild to chilly.

What to Wear . . . Visitors to Montreal may clothe themselves much as they would to visit any major city in their own country.

Time . . . In Montreal, as in the major portion of the Province of Quebec, Eastern Standard Time prevails. In the summer months, Eastern Daylight Time prevails.

The recently completed Bank of Montreal head office building stands on the site upon which the B of M built the first building in Canada specifically designed for a bank in 1818, the year following the establishment of Canada's first bank.

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at its new home during your Montreal convention visit. You may enjoy an inspection of the most up-to-date head office banking facilities in Canada and our officers will welcome your questions on any phase of Canadian finance or real estate in which you are particularly interested. If you should need currency exchange, check cashing or any other banking service, our managers at these two B of M branches near convention headquarters will be glad to assist:

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Shopping . . . The finest and smartest shops in Canada are located in Montreal—a permanent fair of the native skills of French Canada: Handicrafts of the Quebecois—blankets, hooked rugs, hooked pictures, carvings in wood and tusk-ivory, and luxurious furs. Crofter tweeds and bone china from England, cashmeres and lambs-wool from Scotland, fine linens from Ireland, high fashions and fine food from Old World centers. Handicrafts may be purchased at La Centrale d'Artisanat du Quebec in the lobby of The Queen Elizabeth, the Conference hotel.

And after Montreal . . .

With the Conference ending at noon on Friday, many MBA members might well wish to spend the weekend in picturesque and beautiful Quebec—Capital City of the Province of Quebec and less than 200 miles from Montreal.

A city possessing a medieval aspect, perched on a lofty cliff from which one of the world's most imposing panoramas presents itself, Quebec bears with grace the distinction of three and a half centuries of historic wealth in all fields of endeavor. The only walled city in the north of America, its narrow streets and sidewalks, its oblique roofs and dormer-windows, its old stones mellowed by time, its monuments and its old buildings displaying an architecture of yesteryear, all bestow on the ancient capital a charm and quaintness unique today.

And high atop the towering ramparts of the city is the world-famous and distinctively French-Canadian colossus of a hotel, The Chateau Frontenac. For those MBA members planning a week-end stay at The Frontenac, it would be wise to secure reservations in advance. The week-end of May 20-21 is a national holiday in Canada and accommodations might be scarce. Summer rates, starting May 1 (European plan), at The Frontenac are as follows:

Single, with bath . . .	\$11.00 to \$17.00
Double, with bath . .	15.00 to 22.00
Single, without bath	8.50 to 10.00
Double, without bath	13.00 to 15.00
Suites	\$35.00, 40.00 and 50.00

CANADA'S BANKING SYSTEM

(from page 27)

kets. The new corporation, which will be owned and operated by the banks, will extend government guaranteed credits up to five years while longer term credits will be provided out of government funds, with the transactions being handled by the corporation. The legislation which makes this joint venture possible is already on the statute books and the co-ordinating of the banks' and the government's efforts will ensure adequate funds to finance the flow of exports which contribute so importantly to Canadian prosperity.

The banks' holdings of securities at the end of December, excluding the Treasury Bills they are required to keep as liquidity, amounted to about \$3.6 billion.

The capital stock of the Canadian banks is widely held and is, moreover, largely held by Canadians. Since the nominal value of all chartered banks' shares was split ten-for-one in the 1944 revision of the Bank Act, thus making them more accessible to the small investor, the number of share-

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holders has doubled from 50,000 to over 100,000. Of present-day shareholders, 82 per cent are in Canada, 14 per cent elsewhere in the Commonwealth and about 4 per cent in the United States. And the proportion of Canadian shareholders has risen to its present 82 per cent from 71 per cent twenty years ago.

This has been an outline in small compass of a large subject, having to do with a large business in aggregate but one composed of many local units. It is a business that has grown from strong roots stretching deep into the firm ground of historical experience and at the same time has grown with the nation and adapted to its needs under the spur of competition. It is a business that in my view has been a good and faithful servant, a confidential custodian and counsellor, to the Canadian people and is regarded by them as such.

A PRIME NEED: On every hand, in the United States and in Canada, one hears the same refrain: that we desperately need more savings to finance national growth indicated now and that which is to come. How desperately is a question; but one fact is clear: some other countries are doing a better job in this effort than either the United States or Canada.

Against a background of booming industrial production and rising prosperity and living standards in recent years, personal savings have been emerging as a powerful factor in economic progress in principal countries of the democratic world—as has long been the case in the United States.

The revival of savings and the extent of their growth in various countries in the relatively short period after the destructive effect of World War II, have been noted by the Bank for International Settlements. It is particularly apparent in the figures on life insurance and its expansion in one country after another during the last decade.

Life insurance ownership and assets of life insurance companies have been showing a substantially bigger rate of growth in a number of countries in the democratic world during the Fifties than has occurred in the United States or Canada. However, it must be recognized that life insurance in the United States, for instance, went into the Fifties with a substantially broader ownership and bigger base than elsewhere, especially as compared with the nations that bore the brunt of war.

What stands out from these trends in life insurance and other savings is the universality of the thrift urge, and the desire of all people everywhere to provide for the future on their own to the extent that they are able, once the indispensable element of confidence is present.

Of particular interest in the comparative life insurance growth trends are the very high rates of expansion in Japan and Germany. In Japan, for example, life insurance in force expanded eightfold between 1951 and 1959, while assets of Japanese life insurance companies grew almost tenfold in the period.

In Germany, life insurance in force tripled during the last decade while the assets of the German life companies practically quadrupled. These

(Continued on page 35)

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40 Year Mortgages... Unsound, Self-Defeating

By MILES L. COLEAN

THE PENDING housing bill offers as a means for broadening home ownership and expanding the volume of house building the insurance of mortgages with no downpayment and a maturity of forty years. If enacted, this proposal would broaden home ownership only at great risk. It would undermine the integrity of home buyers and the responsibility of mortgage lenders. And in the end it would tend to reduce rather than augment the supply of mortgage funds and hence the possible volume of home building. These conclusions are supported by the illustrative material that follows.

Taking as more or less a typical case, a $12,000 mortgage for full value, at 5½ per cent interest, in which the land is assumed to cost $1,850 and the house $10,150, we find that, if the house is depreciated over a 50-year period, the outstanding amount of the mortgage exceeds the probable value of the house for 29 years. If the useful life of the house is taken to be 40 years, it will be the thirty-sixth year of the mortgage before the owner actually begins to have any equity in the property.

By comparison, in the case of a 30-year, no-downpayment mortgage, an equity accumulation would begin to be possible in the tenth year on a 50-year depreciation basis and after the sixteenth year on a 40-year depreciation basis. The depreciated value of the same property with a 25-year mortgage would manage to keep close to a slightly above the outstanding mortgage amount even during the first perilous years.

It may be claimed that houses do not depreciate on a straight-line basis and that, consequently, these calculations have no necessary resemblance to the facts. It is true that actual depreciation need not follow any standard curve. It may even turn out that, for some reason or other (aside from added capital investment), there may for a time be an appreciation of value. But this happy situation cannot be assured. In the absence of inflation, the chances remain that depreciation will take place, and that, in all probability, a life period of 40 to 50 years for the average house (upon which, again, no additional value is created by interim investment) is about all that should be counted upon.

Under these circumstances, the owner of our typical house with its 40-year mortgage, confronted with the wish or need to sell at the end of ten years, might find his remaining mortgage obligation as much as 115 per cent of his realizable value and, in the fifteenth year, as much as 123 per cent.

Such a prospect makes little economic sense. It also makes little sense from the point of view of social responsibility. It is an invitation to the borrower to walk out on his obligation. It is worse than an invitation; it may be a necessity. A lending institution that makes such a loan—even though it may be protected by the full guarantee now proposed—can hardly be said to be acting responsibly. The government itself is guilty of promoting irresponsibility on the part of both borrower and lender—and, to ease its guilt reaction, the next step would undoubtedly be to protect the borrower from his folly by carrying his defaulted payments (proposals of this sort have already been introduced).

The 40-year mortgage has other inherent drawbacks. Back of the beguiling low monthly payment is a rugged interest picture. Carried to maturity, the 40-year no-downpayment mortgagor will have about 150 per cent of the original house price in interest. The 30-year borrower will have paid a little over 100 per cent, while the 25-year man will have paid less than 90 per cent of the house price in interest. Looking at this another way, the 40-year borrower will, by the end of the seventeenth year, have paid as much interest as the 25-year borrower will pay to maturity, and as much by the twenty-second year as the 30-year borrower will pay to maturity.

In spite of this heavy additional load of interest in the 40-year loan at 5½ per cent interest, the monthly payment (plus the insurance premium) is only 8 per cent less than that of the 30-year loan and 15 per cent less than that of the 25-year loan. On a $12,000 mortgage this would mean that the payment on a 40-year loan would be only $5.92 less than that on a 30-year loan, and $11.29 less than that on a 25-year loan. This is a large price for a small advantage, particularly in view of the aggravated risk of loss already discussed.

The 40-year mortgage creates difficulties that go beyond the immediate problems of borrower and lender. It has grave implications for the whole mortgage structure. Currently about 40 per cent of the gross supply of mortgage funds (exclusive of refinancing) comes from repayments. Anything that slows down the rate of repayment, therefore slows down the total amount of funds available in the market. The 40-year mortgage is a great hogger of funds.

By the time a 25-year loan is paid in full, less than 40 per cent of the 40-year mortgage has been repaid, assuming regular amortization. By the time a 30-year mortgage has been fully repaid, the 40-year mortgage will still have over 55 per cent left to pay. It is argued that these calculations are without significance since the average repayment period of home mortgages is much less than the stated maturity. On the average, this is true although with the stabilization of prices and the general rise in interest rates (which discourages refinancing), the average period of repayment has been creeping up from an estimated eight years a few years ago to nearer 14 years today.

Taking for the present purpose an

assumed average repayment period of 12 years, we find that the 25-year mortgage will, within that period, have been reduced by 1.4 times as much as the 30-year mortgage and 2.7 times as much as the 40-year mortgage. In fact to pay back as much as the 25-year mortgage has been reduced in 12 years would require 23 years with a 40-year mortgage. Or, put another way, over a 12-year period the same funds would finance 2.7 times as many 25-year mortgages as 40-year mortgages of equal amount, while over 25 years a given fund would finance 1.4 times as many 25-year mortgages of equal amount as 40-year mortgages. In view of this, the promotion of 40-year mortgages would seem to be a strange way to increase the volume of housing. On the contrary, if widely used it would seem to be a sure way of reducing volume.

The 40-year mortgage has nothing to commend it. It puts the honest borrower at hazard and encourages default by the irresponsible borrower. It seriously increases the lender's risk unless he supinely is to act as the risk-free agent of government. It deprives the market of a return of funds it needs for the expansion of volume. It is deceptive, unsound, and self-defeating.

OUTSTANDING PRINCIPAL BALANCE ON A 5½ PER CENT, $12,000 MORTGAGE AT SELECTED MATURITIES, COMPARED WITH DEPRECIATED VALUE

	Outstanding Principal Balance (to nearest dollar)			Depreciated Value[1] Of House	
Year-End	25-year maturity	30-year maturity	40-year maturity	2½ per cent depreciation per annum	2 per cent depreciation per annum
1	$11,769	$11,838	$11,915	$11,746	$11,797
2	11,524	11,667	11,825	11,492	11,594
3	11,266	11,486	11,730	11,238	11,391
4	10,993	11,295	11,629	10,984	11,188
5	10,705	11,094	11,523	10,730	10,985
6	10,400	10,880	11,411	10,476	10,782
7	10,079	10,655	11,293	10,222	10,579
8	9,739	10,417	11,168	9,968	10,376
9	9,380	10,166	11,036	9,714	10,173
10	9,001	9,901	10,896	9,460	9,970
11	8,600	9,620	10,749	9,206	9,767
12	8,177	9,324	10,593	8,952	9,564
13	7,730	9,011	10,429	8,698	9,361
14	7,258	8,681	10,255	8,444	9,158
15	6,759	8,331	10,071	8,190	8,955
16	6,232	7,962	9,877	7,936	8,752
17	5,675	7,573	9,672	7,682	8,549
18	5,087	7,161	9,456	7,428	8,346
19	4,466	6,726	9,227	7,174	8,143
20	3,810	6,267	8,989	6,920	7,940
21	3,117	5,781	8,730	6,666	7,737
22	2,384	5,267	8,461	6,412	7,534
23	1,610	4,727	8,176	6,158	9,331
24	793	4,155	7,875	5,904	7,128
25	0	3,550	7,557	5,650	6,925
26		2,912	7,221	5,396	6,722
27		2,237	6,867	5,142	6,519
28		1,525	6,492	4,888	6,316
29		772	6,096	4,634	6,113
30		0	5,678	4,380	5,910
31			5,236	4,126	5,707
32			4,769	3,872	5,504
33			4,276	3,618	5,301
34			3,755	3,364	5,098
35			3,205	3,110	4,895
36			2,624	2,856	4,692
37			2,010	2,602	4,489
38			1,361	2,348	4,286
39			676	2,094	4,083
40			0	1,850	3,880

[1]The original value of the house, including the site, is set at $12,000 (indicating a 100 per cent mortgage). The site value is set at $1,850, an average of the median site values of single-family houses in the value classes $11,000-$11,999 and $12,000-$12,999, insured in 1959 by FHA under Section 203.

A UNIVERSITY IN MORTGAGES

(Continued from page 19)

have not benefited the funds by an appreciation factor."

A recent publication of "The Boston Fund Survey of College and University Endowments" covers 68 colleges which held most of the college investments as of July 30, 1959. In 31, which held 85.8 per cent of the funds of the 68, the average investment was 2 per cent, the amounts ranging from Harvard's .27 per cent to Michigan's 10.2 per cent and Rice's 20.3 per cent. Besides these two which bring the average up, only two—Northwestern and Michigan—had more than 5 per cent in this medium. Of all the 68, the average holding was 2.2 per cent. Our mortgages, as of that date, represented 1 per cent of the total account. It had increased to 3.05 per cent by June 30, 1960, and 4.92 per cent six months later. As yet, it does not generally hold a large place in the college portfolio, perhaps for some of the reasons I have outlined. Few colleges are as adequately staffed to enter this field as they are to purchase market securities; and without large investment volume, acquisition is very difficult.

These, then, have been some of the reasons why we left the mortgage field, the problems that faced us then and now, and the basis of our returning interest. We now recognize mortgage loans of high quality as having a place in our portfolio and are continually working towards a stronger position in this field though I doubt that percentage-wise it will for years appear large in comparison with our stock and bond percentages. The facts of competition and security will undoubtedly never put it in the percentage position it had in 1930. It is, however, already greater in dollar vol-

CUMULATIVE AMORTIZATION OF A 5½ PER CENT, $12,000 MORTGAGE AT SELECTED MATURITIES

Year	Cumulative Amount Of Principal Paid (To nearest dollar): 25-year maturity	30-year maturity	40-year maturity	Cumulative Per Cent Of Principal Paid: 25-year maturity	30-year maturity	40 year maturity
1	$ 231	$ 162	$ 85	1.9%	1.4%	0.7%
2	476	333	175	4.0	2.8	1.5
3	734	514	270	6.1	4.3	2.3
4	1,007	705	371	8.4	5.9	3.1
5	1,295	906	477	10.8	7.6	4.0
6	1,600	1,120	589	13.3	9.3	4.9
7	1,921	1,345	707	16.0	11.2	5.9
8	2,261	1,583	832	18.8	13.2	6.9
9	2,620	1,834	964	21.8	15.3	8.0
10	2,999	2,099	1,104	25.0	17.5	9.2
11	3,400	2,380	1,251	28.3	19.8	10.4
12	3,823	2,676	1,407	31.9	22.3	11.7
13	4,270	2,989	1,571	35.6	24.9	13.1
14	4,742	3,319	1,745	39.5	27.7	14.5
15	5,235	3,669	1,929	43.6	30.6	16.1
16	5,768	4,038	2,123	48.1	33.6	17.7
17	6,325	4,427	2,328	52.7	36.9	19.4
18	6,913	4,839	2,544	57.6	40.3	21.2
19	7,534	5,274	2,773	62.9	43.9	23.1
20	8,190	5,733	3,014	68.3	47.8	25.1
21	8,883	6,219	3,270	74.1	51.8	27.2
22	9,616	6,731	3,539	80.1	56.1	29.5
23	10,390	7,273	3,824	86.6	60.6	31.9
24	11,207	7,845	4,125	93.4	65.4	34.4
25	12,000	8,450	4,443	100.0	70.4	37.0
26		9,088	4,779		75.7	39.8
27		9,763	5,133		81.4	42.8
28		10,475	5,508		87.3	45.9
29		11,228	5,904		93.5	49.2
30		12,000	6,322		100.0	52.7
31			6,764			56.4
32			7,231			60.3
33			7,724			64.4
34			8,245			68.7
35			8,795			73.3
36			9,376			78.1
37			9,990			83.3
38			10,639			88.7
39			11,324			94.4
40			12,000			100.0

CUMULATIVE INTEREST PAID ON A 5½ PER CENT, $12,000 MORTGAGE AT SELECTED MATURITIES

Year	25-year maturity (to nearest dollar)	30-year maturity	40-year maturity
1	$ 654	$ 656	$ 658
2	1,295	1,303	1,311
3	1,922	1,940	1,959
4	2,535	2,567	2,602
5	3,132	3,183	3,239
6	3,713	3,788	3,870
7	4,277	4,381	4,495
8	4,823	4,961	5,113
9	5,350	5,528	5,724
10	5,856	6,080	6,327
11	6,341	6,617	6,923
12	6,803	7,139	7,510
13	7,242	7,644	8,089
14	7,655	8,131	8,658
15	8,042	8,600	9,217
16	8,401	9,049	9,766
17	8,730	9,477	10,304
18	9,027	9,883	10,831
19	9,291	10,266	11,345
20	9,520	10,624	11,846
21	9,712	10,957	12,334
22	9,865	11,262	12,807
23	9,977	11,538	13,265
24	10,045	11,784	13,707
25	10,067	11,997	14,132
26		12,177	14,539
27		12,320	14,927
28		12,425	15,295
29		12,490	15,642
30		12,513	15,967
31			16,268
32			16,544
33			16,794
34			17,016
35			17,209
36			17,371
37			17,500
38			17,594
39			17,652
40			17,674

ume, but so, of course, is the entire account. We are definitely in the market, but I trust we will be careful to accept only high quality.

MORE SAVINGS NEEDED

(Continued from page 32)

trends take on added significance since Germany and Japan paced the Free World's economic growth performance in recent years and have also shown unusually high rates of investment as compared with other countries.

The Netherlands, Sweden, Australia, and Canada, of the countries for which statistics are available, also show higher life insurance growth rates than the United States, where total life insurance in force in legal reserve companies more than doubled in the period between 1951 and 1959, while combined assets grew by two-thirds.

A uniform pattern with respect to broad investment trends mirrored in the distribution of life insurance assets between the Government and private sectors of the economy is apparent in the figures in various countries. In virtually all cases studied there has been a marked growth in the proportion of assets invested in the private economy and a substantially smaller proportion in the public area. In Germany, for example, life company assets invested in the Government sector dropped from 62 per cent to 28 per cent between 1951 and 1959. Similar trends, though of somewhat smaller magnitudes, are found in Sweden, Australia, Canada, the United Kingdom, and the United States.

However, specific practices with respect to investments in the private economy show some marked differences. In the United States, for example, the predominant flow of policyholders' funds is into bonds issued to meet the capital and investment needs of business and industry, and into mortgages, primarily on residential housing.

Other MBAs

FHA Seminar Sponsored by the New Mobile MBA

The newly-organized Mobile MBA, for its initial activity, sponsored an FHA Mortgage Seminar to which were invited all FHA state officials to discuss in a forum session all aspects of insured mortgage operation, including underwriting and preparation of applications. Officials of the young group thought possibly 25 or 30 would be on hand, but attendance actually ran to nearly 150. Participants included C. B. Holliman, State FHA Director; Grover Davis, Chief Underwriter and Ted Taulbee, Chief Examiner, Mortgage Credit Section. Mobile MBA President Grover Johnson presided at the Seminar. Jim Jackson, president of Rolston Realty Corp., served as program chairman and moderator was Wm. M. Battle, vice president of the local organization. Registrations included 46 real estate salesmen, 17 brokers, 38 mortgage company officers and employees, 8 builders and the remainder FHA personnel, title company employees and commercial bankers.

The effort proved such a worthwhile venture that additional Seminars are being scheduled, one to handle VA in the same way and a third to concentrate on institutional investment.

Above, some of the participants in Mobile's FHA Seminar. Left to right, Richard M. Humphry, Mobile MBA board member; Charles B. Holliman, State Director of FHA; Grover L. Johnson, president, Mobile MBA; Wm. M. Battle, vice president, Mobile MBA; Ted Taulbee, Chief, Mortgage Credit Section, FHA; Grover Davis, Chief Underwriter, State FHA; and Mason Dillard, secretary-treasurer, Mobile MBA. Below, the Seminar in session.

Sacramento MBA A New Local Group

Another new local mortgage bankers group has been organized, this time in Sacramento, Calif. Founding officers of the Sacramento Mortgage Bankers Association are Joseph Yazzolini, Jr., of Commonwealth, Inc., president; Richard B. Buhler of Buhler Mortgage Company, Inc., vice president; John W. Heckenlively of the T. J. Bettes Company, secretary-treasurer. All three serve as directors.

Other board members are Larry Wilson of Bankers Mortgage Company and James A. Galloway of the Mortgage Service Company.

Other initial members are Baldwin & Howell, California Western States Life Insurance Company, Coldwell, Banker & Company, Marble Mortgage Company, Mason-McDuffie Company, Norris, Beggs & Simpson, Pacific States Mortgage Company, and State Mortgage Company.

Member firms have made approximately \$400,000,000 in real estate loans in the Sacramento area.

Left to right, above, Messrs Yazzolino, Jr., Heckenlively and Buhler.

45th Annual Texas MBA in Ft. Worth

That largest of regional mortgage association meetings, the Texas MBA's 45th annual convention, is May 10-12 in Fort Worth. Theme is "This Is Your Business." Speakers include

Martin Harris, general counsel for the TMBA, "As Seen from Your State Capital";

Fred Merrill, executive vice president of the Firemen's Fund Insurance Group, "As a Fire Insurance Executive Sees It";

Cecil Woods, president of The Volunteer State Life Insurance Co., "As a Life Insurance Executive Sees It";

Robert Tharpe, MBA president, "As Seen by a Mortgage Banker"; Charls Walker, vice president and economic adviser of the Federal Reserve Bank of Dallas, "As Seen by an Economist";

Robert W. Anderson, financial vice president of Northwestern National Life Insurance Co., "As We Look Into Its Future"; and *(continued page 37)*

John J. Lyman New California MBA

John J. Lyman, vice president, Security Title Insurance Co., Los Angeles, is the new president of California MBA. One of the founders of CMBA in 1955, Lyman for many years has been associated with the development of Southern California and formerly was vice president of Dwyer-Curlett and Co.

A. G. Cummings, vice president, E. S. Merriman and Sons, San Francisco, is the new vice president; Paul H. Howe, vice president, The Marble Company, Los Angeles, secretary, and Charles E. McCarthy, vice president, Bank of America, San Francisco, treasurer.

Newly elected directors are Henry F. Trione, president, Sonoma Mortgage Co., Santa Rosa; Stephen H. Dolley, vice president, Winter Mortgage Co., Los Angeles; William R. Schroll, vice president, United California Bank, Los Angeles.

Silas O. Payne, retiring president and vice president, Marble Mortgage Co., San Francisco, also becomes a director. Others are Malin Burnham, H. Harold Leavey, Floyd B. Cerini, Thomas L. Lowe, Earle V. Taylor, Hal G. Whittle and Urban K. Wilde and Willis R. Bryant, co-founders and first presidents of the association.

David L. Montonna, past president of the American Institute of Real Estate Appraisers, "As Seen by an Appraiser."

M. J. Mittenthal of Dallas, president of the TMBA, will preside at the business sessions of the convention. Alvin E. Soniat of Fort Worth is convention chairman, with Jack W. Townes of Fort Worth as vice chairman.

A highlight of the convention will be a discussion, "Pro's and Con's on FHA Subdivision Financing," at a Thursday morning Young Men's Activities Committee breakfast. "The Mad Hatter's Party" will be the occasion of a ladies luncheon, with Marthie Bouche of New Orleans as mistress of ceremonies. A Friday night costume ball will have "A Night in Paris" theme.

Presentation of the J. E. Foster Award, an annual event honoring a TMBA member who has rendered outstanding service for the mortgage banking profession, will be held Thursday evening at a banquet.

Ohio Organizes a State Wide MBA

Following the precedent established by mortgage bankers in various other states, Ohio lenders are in the process of organizing the Ohio Mortgage Bankers Association, which will be a state-wide group with headquarters in Columbus. Thomas K. Hartzler, Jr. of the Hartzler Mortgage Company in Columbus, has been named president. The secretary is William E. Miller of the Fraser Mortgage Co. in Cleveland and treasurer is John H. Rutledge, vice president of Walldon Inc. of Cincinnati. Directors include William Doyle of Jay F. Zook, Inc. and Harold H. Juergens of the Central National Bank, both of Cleveland.

Some of the oldest local mortgage associations in the country are located in Ohio, including those in Cleveland, Cincinnati and Columbus, but this is the first group organized on a state-wide basis.

Doubt Lenders to Buy 40-Year Loans

President Kennedy's proposed 40-year, no-down-payment mortgages "would probably find a limited market, at least for a time," according to Robert S. Irving, president of the Philadelphia MBA. He pointed out that the proposal is permissive legislation, and that some private lenders today will not make 30-year mortgages.

The mortgage bankers discussed the President's plan informally at a meeting there, but did not take a stand for or against it. In meetings across the country the 40-year loan has been a prime topic, with opinion running strongly against the idea among lenders. In Philadelphia a substantial majority questioned whether very many private lenders would make mortgage loans under such circumstances.

Some mortgage lenders made the point that the proposal might even have the effect of slowing up the resale market in homes, as prospective buyers waited for passage of the President's program.

Harry W. Raff, president of the Home Builders Association of Philadelphia & Suburbs, also expressed doubt about the willingness of lenders to make 40-year, no-down-payment loans.

Mr. Raff noted that buyers who have little equity in their homes are more likely to give up paying, and let their homes be foreclosed.

The longer the term of a mortgage, the smaller the payments on principal each month. This lengthens the period of time before a sizable equity is built up by the home buyer.

After a mortgage has been "seasoned," however, the chances of foreclosure are increasingly less.

Builders in the Philadelphia area generally hailed the proposal as a spur to home building, if mortgage funds were available.

John W. Cooper Is Head of Utah MBA

Utah MBA elected new officers for the coming year which include, from left, John W. Cooper, vice president, Johnson-Anderson Mortgage Company, president; Allen F. Laney, vice president, State Bank of Provo, vice president; Jim T. Nichols, vice president and general manager, National Mortgage Company, secretary-treasurer.

People : Places : Events :

Jerome L. Howard, president, Mortgage and Trust, Inc., Houston, announced the election of **Roy M. Everett** as vice president in charge of conventional lending. Mr. Everett was formerly district manager of a five-state area for a major life insurance company. He is currently president of the Houston Chapter of the American Institute of Real Estate Appraisers.

Roy M. Everett

Tom Sargeant

Tom E. Sargeant, investment official in the home office of Southwestern Life Insurance Company, Dallas, has been promoted to second vice president and assistant treasurer. A former president of Dallas MBA, Sargeant has served as loan officer in the company's investment department for the past year. He will continue to head the firm's program for investment in real estate. He is a past director of the Texas MBA and the recipient last year of the organization's J. E. Foster Award presented annually to the member who has rendered the most outstanding service for the mortgage banking profession during the year.

Appointment of **Richard L. Stallings** as manager of the Atlanta, Ga., regional mortgage loan office of Northwestern Mutual Life Insurance Co. was announced by **Howard J. Tobin,** vice president for mortgage loans. Stallings succeeds **William B. Ross.** For the past four years Stallings has been with Northwestern's mortgage loan office in Philadelphia, most recently as loan supervisor.

He has spent his entire business career in mortgage loans, beginning while he was a law student at the University of Baltimore. After receiving his law degree in 1953 he continued in the mortgage loan field with W. Burton Guy & Co., Inc., and later Suburban Mortgage Service Company, both in Baltimore.

Richard L. Stallings

Kenneth W. Peth

Kenneth J. Morford has been elevated to chairman of the board of Burwell & Morford, Seattle, and **Kenneth W. Peth** has been named president to succeed Mr. Morford. **A. R. Jarvis** was named executive vice president to succeed Mr. Peth. The leadership of the company now combine 89 years of mortgage experience as representatives of life insurance companies and other institutional investors.

Mr. Morford is the son of the late Seth H. Morford, the firm's founder, and joined the company in 1922. Mr. Peth and Mr. Jarvis joined in 1936.

In other promotions approved by the trustees, **Donald W. Hilliard** was made vice president and assistant secretary, and **L. Donald Fisher, Jr.,** treasurer.

The Boston Five Cents Savings Bank elected **Robert M. Morgan** president to succeed **J. Reed Morss.** Mr. Morgan came to the Bank in 1934 and has served as vice president and treasurer since 1950. In addition to corporate directorships, he is Chairman of the Mortgage Committee of the National Association of Mutual Savings Banks; governor of MBA; vice president and director of the Greater Boston Chamber of Commerce; Chairman of the Government Center Commission of the City of Boston and Director and Past President of the Boston Municipal Research Bureau.

Robert M. Morgan

J. Reed Morss, who served the Bank as Vice President from 1932 to 1945 and President from 1945 to date, will continue as a Corporator and Trustee of the Bank.

Richard B. Franklin was elected treasurer. He joined the Bank in 1939 and since 1956 has been assistant treasurer in charge of the Mortgage Service Department.

A pioneer Portland mortgage financing organization has joined forces with Security Bank of Oregon when Brice Mortgage Company was acquired by the institution. It has become its mortgage loan department.

The entire staff of Brice Mortgage Company has joined the Security Bank group. **D. A. Clack,** who has been vice president and manager of Brice Mortgage, will be a vice president of Security. **Ernest P. Calef,** an assistant vice president of the mortgage concern, will be an assistant vice president and appraiser for Security.

Brice Mortgage Company was founded in 1919 by **George F. Brice, Sr.** and has loaned more than a half billion dollars on more than 50,000 Oregon homes, apartments and commercial properties since it began business. *(This section continued page 40.)*

President's Page

A PROVED AND SOUND RELATIONSHIP THAT SHOULD ENDURE

AT the risk of being accused of belaboring a point beyond logical dimensions, I would like to turn this month's President's Page into sort of a postscript to the observations I made earlier in this issue pertaining to the relationship between commercial bankers and mortgage bankers. In this way, I can highlight, and place special emphasis on, some of the principal factors in this matter which ought to receive careful consideration, both by mortgage bankers and commercial bankers.

Robert Tharpe

Foremost, it seems to me, is the fact that the mortgage banker is a specialist in that area of credit in which he works, his record is good, his performance commendable, in short, he knows his field and has done a good job. There is no reason, no logical reason at all as I see it, for believing that banks can take over this field of credit. Nor should banks *want* to do so. Mortgage bankers everywhere are good and valued customers of commercial banks and will continue to be. Possibly it is an oversimplification but it is my firm conviction that —except possibly in a few isolated instances— commercial bankers will continue to find that it is to their distinct advantage to see mortgage banking done by mortgage bankers and commercial banking handled by commercial bankers.

There are very few commercial bankers in this generation who fully appreciate how complicated and complex mortgage banking has become in the past quarter century. True, a few have taken a quick appraisal and concluded that it is something they can add to the services they offer. But not all of these—in fact, possibly only a very few—have a full recognition of the full operation, the extent of the responsibilities involved, the special risks inherent in it, the implications for the future. That is what disturbs me almost more than anything else —the calm assertions we hear so often these days, given with a certain air of unquestioned authority, that commercial banks can do everything that mortgage bankers do and more efficiently and economically. There just is not any basis for statements such as these because the thinking and the reasoning behind them is based upon no precedents, no proved experience and actually represent little more than rough opinions.

In fact, the proved experience, other than in a few exceptional cases, were that mortgage banking and commercial banking were not compatible. All one has to do is look back to the experience of the twenties and the early thirties. In those days commercial banking handled a large percentage of mortgage origination and servicing—but later fled the ship like drowning rats!

To those mortgage bankers who may have expressed alarm at some of these observations, let me sum up my feelings in the simplest terms: I have the opinion that commercial bankers and mortgage bankers will go right on working together in the same traditional relationship which they have maintained in the past because it is based upon sound economics providing definite and distinct benefits for both parties and that any deviation from that system will, in the long run, mean needless sacrifice on the part of one or both. The exceptions to this rule will be based—as has actually been the case so far—upon certain special considerations and conditions which will not apply generally.

Sincerely,

Robt. Tharpe

PRESIDENT

Raymond H. Lapin, president, Bankers Mortgage Company of California, San Francisco, announced the appointment of **Albert L. Buchner,** as executive vice president and **Edwin G. Forrest** as vice president in charge of field operations. Mr. Buchner, a former Oregon FHA State Director, was previously vice president and director of Commonwealth, Inc. and president of the Portland MBA. He is an associate governor of MBA. As administrative assistant in FHA's San Francisco Office in 1950, and later as Oregon State Director, Mr. Buchner pioneered a number of new FHA financing methods, especially in the field of multiple-family housing.

Albert L. Buchner

Edwin G. Forrest

Mr. Forrest was previously assistant vice president of Institutional Mortgage Company in charge of the firm's Northern California operations. Prior to that he was manager of the San Jose office of Baldwin & Howell. While playing center on the Santa Clara University football team, 1938-1942, Mr. Forrest won several All-American mentions. He was one of the original San Francisco '49ers, playing guard from 1946 to 1948. He closed his football career in 1950 as assistant coach at Santa Clara which played Kentucky in the Orange Bowl that year. During World War II, he served with the 82nd Airborne Division.

Mercantile Mortgage Company, Granite City, Illinois, announced the addition of **Gerald L. Nordstrom** to the company's financial executive staff. A member of the Illinois Bar and a certified public accountant, Nordstrom comes to Mercantile from the Cincinnati, Ohio, branch of Alexander Grant and Company, accountants, where he managed the tax department.

John B. Waltz, Jr., has been appointed manager of the conventional, commercial, and industrial loan department of Tidewater Mortgage Corporation, Norfolk, Va., **Gerard J. Manack,** president, announced. He formerly was assistant regional supervisor in the Washington, D. C. office of Massachusetts Mutual Life Insurance Company, and as such, with the regional supervisor, supervised all the company's real estate and mortgage loan activities in seven states, including Virginia, and the District of Columbia.

Frank G. Dezell, president, Southeastern Mortgage Company, Miami, announced the appointment of **Louis J. Silvestri** as vice president and a member of the board. He will fill the newly created post of manager of the Mortgage Servicing Department, a position he previously held with the Kissell Company of Springfield, Ohio, as vice president.

New Members in MBA

Regular Members:

CALIFORNIA, *Pasadena:* Security Mortgage Investment Co. of California, Hayward Tamkin, president.

FLORIDA, *Tallahassee:* The Commonwealth Corporation, Bernard W. Shiell, Jr., executive vice president.

HAWAII, *Honolulu:* Hawaii National Bank, J. Pete DeLongchamps, Jr., vice president.

IOWA, *Des Moines:* Homesteaders Life Company, J. C. Butler, first vice president.

LOUISIANA, *Baton Rouge:* State National Life Insurance Company, Stanley A. LaFargue, assistant manager.

OKLAHOMA, *Oklahoma City:* The Liberty National Bank and Trust Company, Dewey Jernigan, vice president.

TEXAS, *Dallas:* J. DuVal West Mortgage Company, J. DuVal West, president; *Houston:* Hindman Mortgage Company, Inc., Lewis D. Hindman, president.

Limited Members:

NEBRASKA, *Omaha:* National American Insurance Company, Ray F. Stryker, executive vice president.

NEW YORK, *New York:* Childs Securities Corporation, E. F. Gidley, Jr., vice president; *New York:* Union Carbide Corporation, H. H. Babcock, assistant manager.

Associate Members:

COLORADO, *Denver:* City-Wide Mortgage Company, Robert J. Henderson, vice president.

GEORGIA, *Augusta:* Georgia Securities Investment Corp., Clifford H. Ewing, assistant vice president.

PUERTO RICO, *Hato Rey:* First National City Bank of New York, George E. O'Shaughnessy, manager.

PERSONNEL

AND BUSINESS NEEDS

In answering advertisements in this column, address letters to box number shown in care of The Mortgage Banker, 111 West Washington Street, Chicago 2, Illinois.

WANTED . . . CONTROLLER
Excellent opportunity for young man in medium size, progressive, mortgage banking firm in Los Angeles, California. Present accounting on NCR 3100. Experience in tab system helpful. Must be family man and have at least five years experience. Please send résumé including age, education, background and salary desired. Write P. O. Box 2563, Los Angeles 54, California.

Mortgage Solicitor — Man with initiative, ambition and imagination who is capable of growing with the firm to manage Florida West Coast Branch Office for East Coast Mortgage Co. Permanent connection. Write in confidence to Box 713.

Mortgage Banking Trainee: June Graduate, BSBA, with emphasis on real estate, finance. Strong desire to learn mortgage banking business. Age 22. Résumé and photo available. Write Box 714.

SENIOR EXECUTIVE
Over 25 years in mortgage banking. Thoroughly capable of organizing and directing production and servicing activities. Heavy experience in large commercial and industrial loans. Seeks administrative responsibility with major institutional lender, pension fund or foundation. Mid-Atlantic area. Write Box 715.

WANTED: Manager for Mortgage Company now being formed. Experience in all phases of FHA applications, field inspections, office routines and servicing. Have knowledge of procedures and possible contacts in disposal of FHA mortgages to FNMA and other final investors. Ability to set up, train personnel and operate this company. Write giving in detail experience, age, income requirements. J. E. Daugherty, Vice President, Midwest Homes Acceptance Corp., Box 109, Charleston, Illinois.

STUDENT PLACEMENT
In connection with MBA's Educational Program and particularly its School of Mortgage Banking, young men and women completing their academic work and ready for a career in mortgage banking have résumés of their experience presented here. The following candidate is offered for membership consideration at this time.

Candidate No. 104—Box 712. Age 27, married, no children B. B. A. University of Texas, 1960; 30 semester hours of graduate school. Member of Independent Student Association; Honor Roll for two semesters; Treasurer, American Finance Association. Employed as painter and carpenter prior to entering college. Summer employment as residential appraiser for mortgage banking firm. U. S. Air Force, March, 1953 to January 1958 with rank of 1st Lieutenant. Presently in inactive reserve. College instructor comments: ". . . is an exceptionally promising young man that I am glad to recommend."

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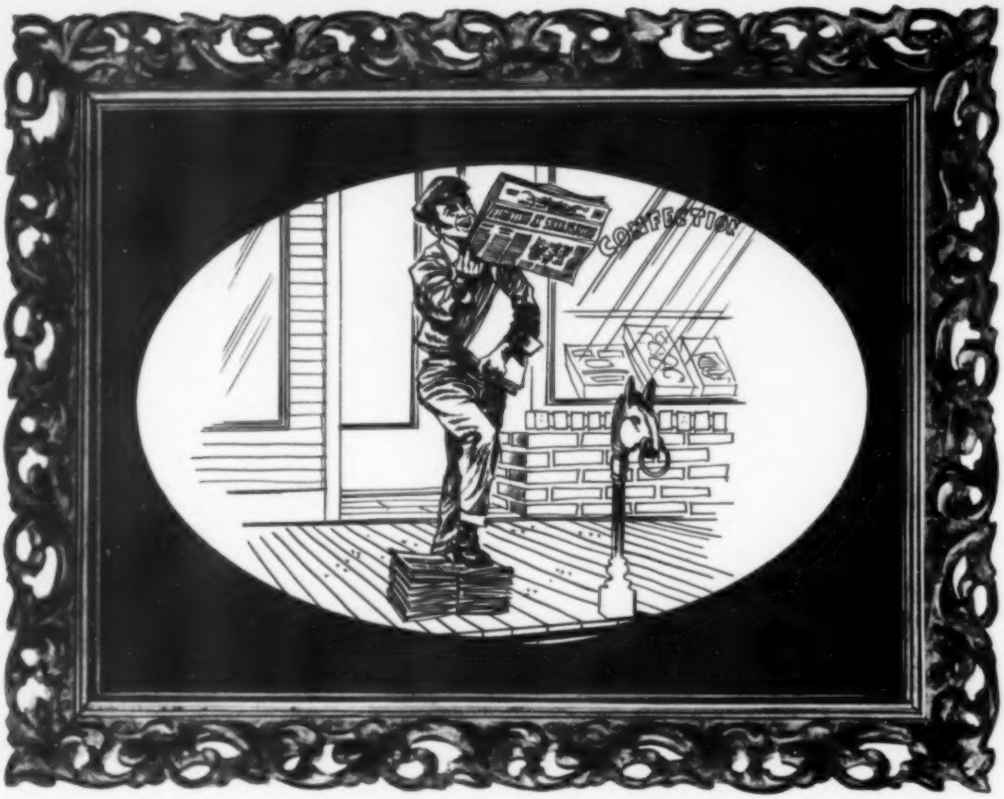

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- Jackson, Mississippi; 518 East Capitol Street
- Denver, Colorado; 1845 Sherman Street

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